The H.J. Heinz Company 1993 Annual Report

The Power of Change

How Do You Deliver the Highest Quality at the Lowest Cost? You Start by Finding the Best the World Has to Offer—and Buying It on a Global Scale.

Wattie's Limited Gives Heinz Strong Field Position in a Corner of the World that Is Fast Becoming a Greenhouse for the Youthful Markets of Asia.

Less Salt? Less Fat? Richer Taste? More Convenience? The Capricious Tastes of Consumers Are an Ever-Moving Target. Here's How Heinz Consistently Hits the Mark.

In the Fertile Ground of a More Unified Europe, an Uncommon Group of Heinz Marketers Is Cultivating a New Crop of Opportunities.

For 30 Years, Weight Watchers Has Helped People Discover the Benefits of a Healthier Lifestyle. Today, Its Message Is Even More Timely.

How Do You Turn an Aging Factory into a World-Class Juggernaut? Not Just by Upgrading the Equipment—But by Tapping the Ingenuity of Its People.

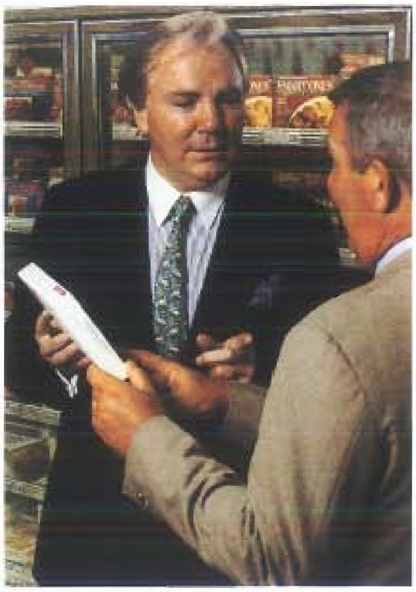
Where do new ideas begin at Heinz?
In a conversation between a soup cook and a computer programmer. In a newly "discovered" family recipe. In a visit to a supplier's factory. At a Weight Watchers meeting.

To uncover that spirit of innovation, we asked journalist and business historian Rodger Morrow to visit with our people in every corner of the globe, at every level of our operations.

This annual report is a tribute to the power of change—and to the rewards that change can bring.

(Dollars in thousands except per share data)	1993	1992	1991
Sales	$7,103,374	$6,581,867	$6,647,118
Operating income	860,885	1,106,515	1,037,103
Income before cumulative effect of accounting change	529,943	638,295	567,999
Net income	396,313	638,295	567,999
Per common share amounts:			
Income before cumulative effect of accounting change	$ 2.04	$ 2.40	$ 2.13
Net income	1.53	2.40	2.13
Dividends	1.17	1.05	.93
Book value	9.12	9.31	8.76
Capital expenditures	$ 430,713	$ 331,143	$ 345,334
Depreciation and amortization expense	234,935	211,786	196,138
Property, plant and equipment, net	2,162,211	1,912,109	1,722,741
Cash, cash equivalents and short-term investments	$ 224,304	$ 273,136	$ 313,964
Operating working capital	1,137,119	887,267	885,869
Total debt	2,613,736	1,902,483	1,226,694
Shareholders' equity	2,320,996	2,367,398	2,274,863
Average shares for earnings per share	259,788,461	266,339,122	266,628,617
Current ratio	.92	.80	1.48
Debt/invested capital	53.0%	44.6%	35.0%
Pretax return on average invested capital	18.7%	28.8%	31.3%
Return on average shareholders' equity before cumulative effect of accounting change	22.0%	27.5%	27.3%

The above comparisons are affected by the following items: 1993 included restructuring charges and the impact of adopting FAS No. 106; 1992 included restructuring charges and the gain on the sale of The Hubinger Company. See Notes to the Consolidated Financial Statements for more information.



Fiscal 1993 was a good year for the H.J. Heinz Company. Perhaps one of the reasons was that a sixth sense told us two years ago that a weak economy and general price deflation would be more prolonged than generally anticipated. Because of these apprehensions, we invested the proceeds from the sale of The Hubinger Company into sustaining and, where possible, accelerating the quest for increased productivity and low-cost operator status. The outcome has been very satisfactory. We have successfully countered the major competitive challenges to Heinz ketchup, StarKist tuna, 9-Lives cat food, Weight Watchers brand entrees and Weight Watchers International. We invested heavily in people and technology to reduce costs and add value and we used our marketing mix in a specific way for each given product battle. The result? This year, we achieved record market shares in almost all major categories both in the United States and overseas. Those advances enabled Heinz to achieve the highest sales volume increase in seven years, reaching $7.1 billion for Fiscal 1993. In Fiscal 1994, we believe we will be able to leverage this brand strength for greater profitability.

However, there was bad news for all consumer products companies because of the lingering recession in the United States and Europe. It has been many years since our company has operated in a deflationary environment. Those old enough to remember such days know that the key to protecting market share and future profits lies in greater efficiency, productivity and innovation.

I believe that these tough times offer a rare opportunity for competitive advantage if a company and its managers are aggressive enough to seize that opportunity. Consequently, on June 15, we announced a $117-million after-tax restructuring charge to accelerate productivity initiatives. In effect, we decided to build on our existing brand momentum and to accomplish in nearly one year the productivity advances which otherwise would have required three years.

Among the actions we are taking as a result of the restructuring charge are: reconfiguring manufacturing operations between the U.S. and Canada; investing in training and technology to downsize operations in the U.K. and Italy, and at Ore-Ida; implementing a transformative agreement with labor unions in Australia; restructuring the administration of Weight Watchers International; consolidating sales service functions in North America within the recently established Heinz Service Company; and combining the administration of Heinz Pet Products and StarKist.

There are three great forces changing the world of marketing in the 1990s. First, the collapse of trade barriers and tariffs means that Heinz must focus on optimum manufacturing locations for its regional mega-markets in North America, Europe and Asia. Second, the explosion of media technology exposes millions more consumers to Western lifestyles and brands. Third, consequent on the two preceding forces, is a new consumerism in both the developed and developing worlds.

In North America and Europe, there is substantial growth potential for brands that create real added value. The enthusiastic reception for Ore-Ida's frozen mashed potatoes and Fast Fries™ frozen French fries, as well as for Weight Watchers Smart Ones™ and Heinz Salsa-Style Ketchup, proves that innovation, recipe and convenience—not merely price—are key to winning new customers. In the developing world, the brand is a symbol of trust and quality and a recognition of status. Our acquisition of Wattie's Limited, together with the renaissance of Heinz Australia, will result in major growth for Heinz in Asia and the Pacific Rim, where economies are growing by more than 6 percent per annum.

At a time when the selling and pricing power of brands is the subject of lively debate in the U.S. and Europe, particularly in tobacco markets, the resurgence of Heinz brands proves that properly priced, skillfully marketed brands will continue to enjoy widespread consumer support. The brand is a global citizen as no private-label product can ever be. Heinz—with 43 percent of its business overseas—is one of the few food companies able to participate in the expanding world of global brands created by satellite/cable television.

In addition, it is no secret that international companies, if they structure themselves properly, can enjoy a distinct advantage in procurement, distribution and marketing. At Heinz, we are working to exploit those advantages to the fullest. Our Global Procurement Task Force, for example, has sought the most efficient suppliers around the world and consolidated purchasing across all of our affiliates. Already this team has saved Heinz $100 million on an annualized basis. Its efforts with suppliers to value-engineer packaging and raw materials will open the door to even greater cost reductions in the years ahead. Such work is helping to ensure that the best procurement practice anywhere becomes standard practice everywhere.

Heinz is also building on its leadership position in the foodservice business in North America and increasingly in Europe. Our foodservice sales are nearly $1.4 billion and the U.S. market alone has grown by 4.8 percent in the past year. A few weeks ago, we announced the purchase of the Moore's and Domani

brands of frozen foodservice products from Clorox. Moore's is the number-one brand in frozen coated onion rings, vegetables and cheese. The Domani name is famous for high-quality frozen pasta. In Europe, where the foodservice industry is growing very rapidly, we acquired Arimpex in Italy. These additions will build significantly on our August 1991 acquisition of JLFoods, a group of North American foodservice units.

There is general agreement among close observers of Heinz that during last year's extremely tough trading environment we greatly improved the performance of our businesses. We have demonstrated that there is no such phrase in the Heinz lexicon as "a mature brand." Equally important, we introduced a record 500 new products and increased our marketing support to all-time high levels. During Fiscal 1994, we are leveraging our brand power for better profits. We will do that by pursuing every possible cost opportunity, by innovation—whether in recipe, packaging, operations or marketing—and by selective price increases. Our aim is a simple one: to be ahead of the curve.

This year's annual report is entitled "The Power of Change." It captures Heinz's determination to anticipate a changing world. We will not merely recognize change, but we will embrace it as a partner in further growth and prosperity.

During the past year, Heinz employees have proven their ability to meet world standards of performance. They have demonstrated that added value, quality, taste and nutrition can sustain brand growth, even under the most challenging circumstances. They have shown the determination and the flexibility to adapt to a radically altered business world. In the pages that follow, you will meet people who believe in the power of change. Together, we share a vision of growth and of making Heinz a global powerhouse for the 21st Century.

Anthony J. F. O'Reilly
Chairman, President and
Chief Executive Officer

Enriched by strategic acquisitions and enhanced by effective restructuring, Heinz affirmed the leadership of its major brands worldwide in Fiscal 1993 with unprecedented sales and market shares.

Global sales for the year totaled $7.1 billion, of which 43% came from non-U.S. operations. Marketing support—including trade and consumer promotions—exceeded $1.5 billion.

Heinz's leading brands grew dramatically (see page 18). Despite intense competition, Heinz's market shares reached record heights, reflecting the greatest volume increase, in percentage terms, in 7 years.

Acquisitions opened dynamic new markets. The $300-million purchase of Wattie's in New Zealand—Heinz's largest offshore acquisition—increases overseas business 12% and generated significant Asia/Pacific opportunities.

Heinz expanded and extended its European presence, purchasing Arimpex, a major Italian foodservice business, and forming Magyar Foods, a Hungarian joint venture. In North America, Heinz Pet Products bought preferred stock in Veterinary Centers of America and acquired Best Bred, Inc., distributors of dog snacks. Weight Watchers International purchased more franchise areas, extending its ownership to 42% of the U.S. system.

Other major transactions included the Alimentos Heinz acquisition of Venezuela's Sonrissa brand desserts and Olivine Industries' addition of RBP (Pvt) Limited, a Zimbabwean baking powder and pudding maker.

New products, numbering 500 worldwide, fueled major growth. Weight Watchers Food Company was *Food Business* magazine's new products company of the year for such innovations as Smart Ones™ frozen entrees with one gram of fat. Ore-Ida launched Fast Fries™ frozen French fries and mashed potatoes.

Substantial investment in **facilities and training** energized affiliates and accelerated efficiencies. Heinz U.S.A. opened its revitalized, $116-million Pittsburgh factory. Heinz Service Company was formed to streamline customer order processing, invoicing, credit and receivables for Heinz's leading U.S. affiliates.

Heinz built a new pizza production facility in Dundalk, Ireland. Worldwide improvements ranged from extending Heinz Canada's Wheatley vegetable processing plant to installing new weighing equipment at Heinz-UFE's factory in China.

Heinz's task force on **procurement** saved an annualized $100 million on raw materials purchases. A 20% reduction in California's tomato crop and a 2% drop in the potato harvest eased pricing pressures for Heinz U.S.A. and Ore-Ida. The western tropical Pacific yielded abundant dolphin-safe light-meat tuna for StarKist.

On the eve of its 125th anniversary, Heinz maintained its long tradition of **public service**. The H.J. Heinz Company Foundation alone made grants totaling $5.6 million to approximately 1,100 organizations and matched two-for-one some 1,411 employee contributions.

Shopping the Globe

HOW DO YOU DELIVER THE HIGHEST QUALITY AT THE LOWEST COST? YOU START BY FINDING THE BEST THE WORLD HAS TO OFFER-- AND BUYING IT ON A GLOBAL SCALE.

To Shakespeare, the world was a stage. To Dick Wamhoff, it looks more like a shopping mall. As chief of Heinz's Global Procurement Task Force, Wamhoff has unearthed bargains and formed innovative agreements with Heinz suppliers around the globe that will save the company tens of millions of dollars each year. And, perhaps more remarkably, his team has accomplished the bulk of this Herculean task in the time it would take most committees to work out their travel arrangements.

Wamhoff's colleagues on the task force laud his ability to drive a hard bargain. Yet the large, bear-like man is surprisingly warm and genial. His tone is that of a favorite uncle explaining *the secrets of the* family business: "All we're doing is trying to find the people who can sell us the best product at the lowest price and giving them as much of our business as we possibly can—a kind of Wal-Mart approach to corporate procurement."

But isn't that a tall order for a company that does business in more than 200 countries? "Well, yes and no," says Wamhoff, who is also president and CEO of Ore-Ida. "Even though we market our products in some 200 different countries, most of them are quite similar. For example, we make baby food in Italy, England, Venezuela, Canada and the United States. The formulas and ingredients may vary from market to market, but basically it's all glass-jar baby food. So, we're looking at each affiliate to see who in fact has the lowest cost structure for a glass container for baby food."

Can you really save millions by pinching pennies on baby food jars? "Collectively," he says, "our affiliates buy an awful lot of packaging and raw materials: glass, corrugated paper, tinplate, flexible packaging, labels, frozen vegetables, tomatoes—it's a long list. So, what we did was comb the globe to see who has the lowest cost for a product we're all using. Then we figured out how much we could all save if we went to that specification and consolidated our purchasing among a few low-cost suppliers."

A Fast Strike

The pace of the consolidation was remarkable. It took less than four months from the time the task force was launched to the signing of contracts with suppliers. Says Sue Barrett, general manager of packaging for Ore-Ida and a member of the task force: "It was remarkable how quickly we were able to bring the resources together to complete the evaluation and how quickly we were able to implement our findings."

It has taken Heinz and its suppliers little time to realize the benefits of consolidation. For the company, it has meant lower prices and improved quality. For suppliers, it has meant greater sales volume and the assurance of a long-term source of business.

"Traditionally, we've negotiated purchasing agreements on an annual basis," says Mike Bertasso, vice president of logistics and purchasing for Star-Kist Foods.

"But we can't expect suppliers to make the sort of commitment we're asking, if they think we might

pull the rug out from under them in a year's time," he says. "That's why we needed long-term agreements. They give our suppliers security to work with us to 'value engineer' processes and generate savings on both sides of the relationship."

Keeping the Ball Rolling

"Value engineering is really the key to long-term cost savings," says Joe Ward, general manager of purchasing for Heinz U.S.A. "Sure, we've saved a lot of money by consolidating our suppliers and negotiating long-term agreements. But the real savings will come from reducing production costs in our suppliers' factories and in our own. You can call it value engineering, but what it's really all about is pulling costs out of the system."

"The savings potential of this sort of partnership is pretty much unlimited," adds Wamhoff. "We're helping our suppliers reduce costs and improve quality—and they're helping us. We've got plenty of incentive on both sides to keep the ball rolling."

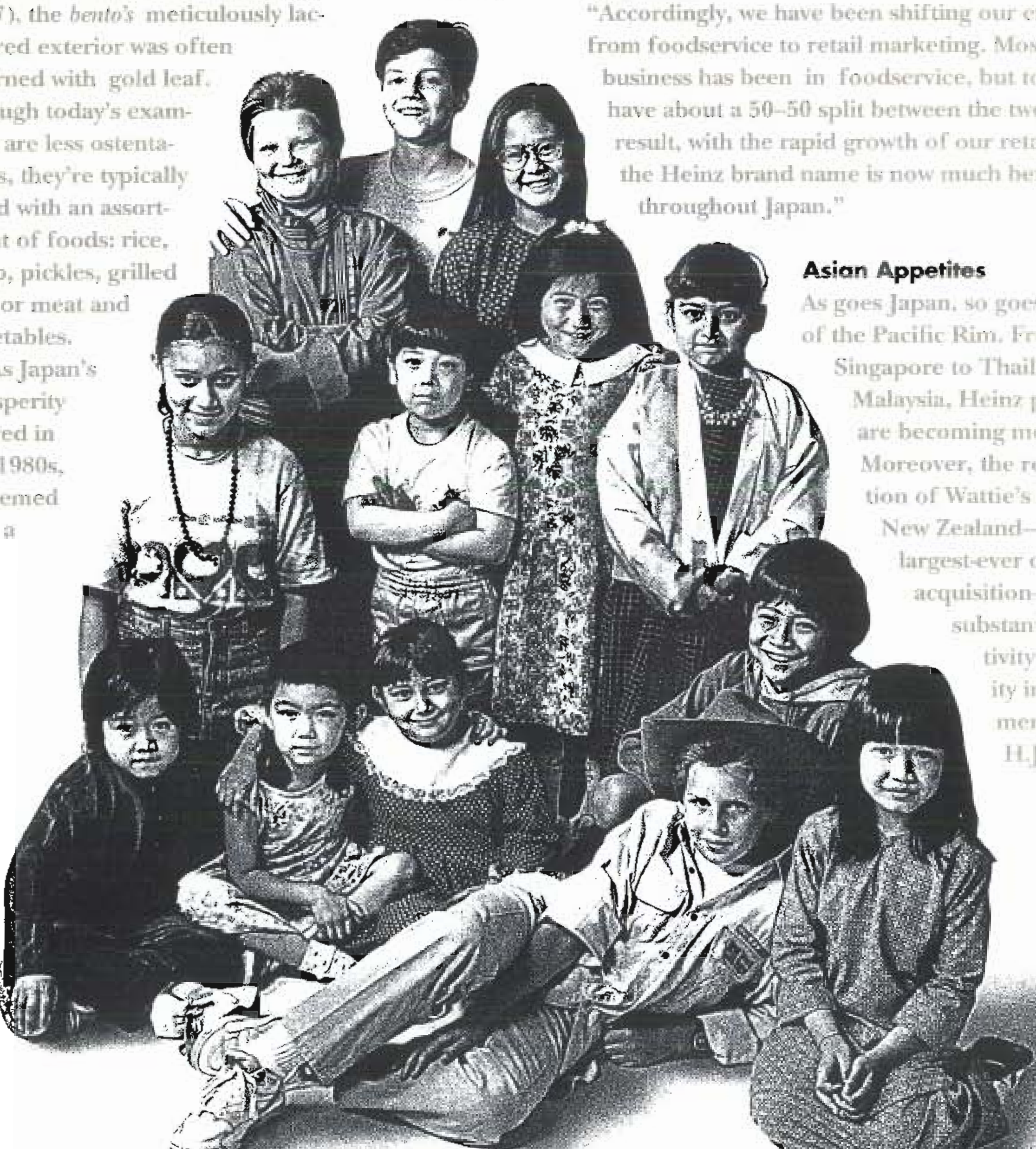
At Wamhoff's global shopping mall, the bargain hunters never sleep. And there's always a new opportunity on the horizon.

You can see it tucked under the arms of subway riders on the Marunouchi line. Behind sales counters in the electronics shops of Akihabara. Even in the executive offices of some of Japan's biggest industrial companies. All over Tokyo, the *bento* is staging a comeback.

The *bento* is the traditional Japanese lunch box, allegedly the creation of the feudal lord, Oda Nobunaga, who devised it as an early form of K-rations for his armies. During the Edo Period (1603-1867), the *bento's* meticulously lacquered exterior was often adorned with gold leaf. Though today's examples are less ostentatious, they're typically filled with an assortment of foods: rice, soup, pickles, grilled fish or meat and vegetables.

As Japan's prosperity soared in the 1980s, it seemed that a combination of the neighborhood *shokudo* (diner), Western-style fast-food and the expense account lunch would drive the *bento* into extinction. The recent demise of Japan's "bubble economy," however, has helped bring the box lunch back into fashion.

"In the last three years, the grocery business has been growing rapidly—by about 13 to 15 percent each year," explains Mass Ogawa, president of Heinz Japan, as he samples *bento* delicacies on a May afternoon in the Korakuen Garden, near his office. "Accordingly, we have been shifting our emphasis from foodservice to retail marketing. Most of our business has been in foodservice, but today we have about a 50–50 split between the two. As a result, with the rapid growth of our retail sales, the Heinz brand name is now much better known throughout Japan."



Asian Appetites

As goes Japan, so goes the rest of the Pacific Rim. From Singapore to Thailand to Malaysia, Heinz products are becoming more visible. Moreover, the recent addition of Wattie's Limited in New Zealand—Heinz's largest-ever offshore acquisition—and the substantial productivity and capacity improvements at H.J. Heinz

Cultivating the Pacific Rim

WATTIE'S LIMITED GIVES HEINZ STRONG FIELD POSITION IN A CORNER OF THE WORLD THAT IS FAST BECOMING A GREENHOUSE FOR THE YOUTHFUL MARKETS OF ASIA.

Australia Ltd. will give the company even stronger field position in rapidly growing Pacific markets.

"The combined strength of our Australian and New Zealand subsidiaries," says Walter Schmid, area director–Asia/Pacific, "located in what you might call 'the greenhouse of the Pacific,' gives us tremendous potential for exports into Asia. Take Japan, for example, a country that will increasingly need to be supplied from outside its borders. Both Heinz and Wattie's have had a presence in Japan for more than 25 years. And today, we have the potential to be enormously cost-competitive in that market."

In the 1960s, when Heinz first established a beachhead in Japan, the country relied on imports for only 30 percent of its food supply. The figure has now risen to more than 50 percent—and is likely to rise much higher as agricultural trade barriers continue to fall. That trend, combined with the Japanese mania for quality, makes it increasingly likely that those ubiquitous Tokyo lunch boxes will hold something made by Heinz.

"Given the relatively small size of our domestic market, exports have always been a big part of our success at Wattie's," says its president and CEO David Irving. "For example, about half of our frozen food business is exports, and of those, roughly 40 percent go to Japan. Japanese consumers are very demanding, of course; they want high quality at the right price. But Wattie's is a very low-cost producer with a very high-quality product, so we've got what it takes to succeed there."

Scaling New Heights Down Under

The remarkable productivity of Wattie's has also helped to spur Heinz Australia to new levels of achievement. "Acquiring Wattie's has helped us in a number of ways," says Heinz Australia's managing director and CEO Terry Ward. "First of all, it's made us collaborators in the Australian market. Second, it's helped us gain much more leverage with our suppliers, which represents a really big savings. And finally, it's helped to inspire new agreements with our trade unions and suppliers that will make us more competitive and give us more potential to expand our exports to markets like Thailand, Hong Kong, Singapore and the People's Republic of China—even to Japan, which represents an untapped opportunity for us. That's quite a revolution in just seven months."

What will new capabilities in New Zealand and Australia mean for Heinz's growth in Asian markets? One clue is found in the remarkable success that Wattie's Tip Top brand ice cream has enjoyed in Japan—roughly \$5.2 million in sales annually. "We estimate that it costs only one-sixth as much to make ice cream in New Zealand as it does in Japan," says Walter Schmid. "That's quite a value gap. As we find other products to exploit that cost advantage, we can build a substantially larger Asian revenue base, offering consumers a high-quality product at a very modest price."

Who knows what tomorrow's *bento* may hold?

Brian Ruder is a man in a hurry. Not by choice, perhaps; his job as president and CEO of Weight Watchers Food Company keeps him that way. "There's no question that consumers have grown much more demanding of products," says the 38-year-old manager. "They're much more volatile in their tastes. You've got to innovate constantly or you won't keep up."

Innovation has certainly been the hallmark of Weight Watchers Food Company since Ruder took charge of the affiliate in July of 1991. During that brief interval Weight Watchers has introduced more than 40 new products. Indeed, more than a third of Weight Watchers Food Company sales come from products that were introduced during the past year.

How does Weight Watchers keep pace with consumers? "Well, we spend a lot of time in a lot of restaurants," Ruder says. "We have a file of hundreds of restaurant menus, and we stay abreast of all the foodservice magazines. We're always looking for things that could be emerging trends. The restaurant business seems to be more fickle, more dynamic than the grocery store. People tend to be more adventurous when dining out, and that can point us in some interesting directions."

Weight Watchers also looks for inspiration a bit closer to home. "Take Joe Bradley, our vice president of technical services. His wife has a dessert that's been in the family for about three generations: it's a killer dessert. We'd really like to make that product, but we haven't figured out how to get it under 200 calories."

For Weight Watchers, the traditional tools of market research offer ways to validate product ideas, not to generate them. "We check in with the consumer every couple of months and run focus groups on a pile of new ideas. We write up a concept board on each idea and show it to 50 people and see where they take it. Then we let them rank the ideas and see which ones float to the top," Ruder says.

Forging New Formats

Focus groups can sometimes generate new ideas, but they're seldom revolutionary ones—what Ruder calls new food "formats" and Weight Watchers has introduced an amazing number: Ultimate 200™

Consuming Passions

LESS SALT? LESS FAT? RICHER TASTE? MORE CONVENIENCE? THE CAPRICIOUS TASTES OF CONSUMERS ARE AN EVER-MOVING TARGET. HERE'S HOW HEINZ CONSISTENTLY HITS THE MARK.

entrees, at just 200 calories or less; Stir-Fry entrees, a modern twist on an Oriental tradition; Smart Ones™, a line of frozen entrees with one gram of fat; Breakfast On-The-Go!, a range of hand-held microwaveable breakfast foods; four new *à la mode* desserts that combine fat-free ice cream and baked goods; microwaveable hot fudge sundaes—the list goes on. "The surest way to win the game is to set the rules," he says. "That's what we try to do."

But it's one thing to come up with great ideas and another to bring them to market. "I think the critical thing is to focus dedicated resources on a product, to really make it happen. Take Smart Ones. That was like the Normandy invasion for us," Ruder says. "We took a bunch of people out of day-to-day operations and said: 'Look, your job is to get Smart Ones shipped by August 1, 1992. That's your mission. Just tell me what you need to accomplish that.' We also tried to do things concurrently, things we had traditionally done sequentially. And all of a sudden everybody started to open up their eyes and find ways to cut huge chunks of time out of the way we traditionally go to market."

Another Weight Watchers secret: don't invent technology if you can borrow it. "I believe that most businesses don't take advantage of the opportunity to borrow technologies and apply them to new things. If you develop one product, you probably have the keys to at least three or four other products. You just need to find out what they are," Ruder comments. "If we can make macaroni and cheese, can we borrow some of that technology to make pasta entrees? That's the kind of question you've got to ask yourself."

Swapping Ideas

Weight Watchers isn't shy about importing technologies from other Heinz affiliates—or about sharing innovations with them. "We swap a lot of ideas and technologies with Ore-Ida in the frozen food area. They're doing some amazing things to reduce cycle time and to develop new formats," Ruder notes. Clearly, the spirit is catching. Ore-Ida has recently launched some 25 new retail products and another 27 foodservice items—including Fast Fries™, a new brand of potatoes with the taste of fast-food French fries. True to its name, Fast Fries went from concept to delivery in just seven months.

The key to hitting a moving target, of course, is not just speed but accuracy. "So far we've been lucky enough to be right a hell of a lot more than we've been wrong. New products typically have a success rate of less than 20 percent in the supermarket. We've had a failure rate of less than 20 percent. Frankly, I think the faster you move a product into the marketplace, the better its chances of success. If you take too long, your ideas go stale; the consumers have moved on."

Few of them, however, are likely to outpace Weight Watchers Food Company.

Transplanting Success

IN THE FERTILE GROUND OF A MORE UNIFIED EUROPE, AN UNCOMMON GROUP OF HEINZ MARKETERS IS CULTIVATING A NEW CROP OF OPPORTUNITIES.

"It's quite straightforward," says Bruce Purgavie, Heinz's director of European Business Development. "What we're doing is taking a product that's successful in Market A, and simply moving it across a geographical boundary and finding a home for it in Market B. The challenge, of course, is understanding Market B well enough to make the product a success there, too."

It is 7 a.m. in the chilly aisle of a supermarket in Calais, France. A young man in a denim apron fills a shelf with cans of Heinz's newest product offering for the French market, *Les Pierrafeu*. Though the name is unfamiliar, the images on the label are anything but: Fred, Wilma, Pebbles, Dino—that "modern Stone Age family" known to Americans as the Flintstones. The cartoon characters have been reincarnated as 11 pasta shapes, pre-cooked in tomato sauce. Plainly, it's a product no kindergarten *bon vivant* can resist. Its ardent reception by French consumers has surpassed expectations.

A straightforward idea perhaps—yet one that was far from self-evident when Purgavie's Euroselling Task Force was launched a year ago. In that time, the group has sparked the creation of more than 100 products, all with a distinctly trans-national flavor. Portuguese chili sauce exported to the U.K. Dutch mayonnaise marketed in Spain. Italian candies sold in Portugal. And, the latest member of this alimentary jet set? Canned pasta inspired by American cartoon characters, prepared in Heinz's Kitt Green, England, Eurofactory for sale in that most discriminating of all food markets, France.

"We've been marketing this product in the U.K. for some time. But conventional wisdom says that foods which are successful in England don't fare especially well in France," the London native and 30-year veteran of Heinz U.K. explains. "The French find English food too sweet, too bland. But children are an altogether different story. With them, the 'vices' of English taste become a virtue. Add the appeal of American cartoon characters, and you've got a potent product indeed."

The Flintstones have been a staple of French television for nearly as long as they have been in America. Hence, *Les Pierrafeu* are reassuringly familiar to parents and children alike. (Can there be a plausible Gallic equivalent for "yabba-dabba-doo"?) "The pull of American culture is quite powerful in Europe," says Purgavie. "It's a force that an American company like Heinz can tap, regardless of where we make the product."

Pet Projects

For Arnaud Raillard, the advantages of selling an American product are less evident, at least to his ultimate consumers. As director of European Pet Foods (and a member of Purgavie's Euroselling Task Force), Raillard has been charged with building on Heinz's considerable experience in the U.S. and taking the company "from an opportunistic exporter to a strategic player in the international pet food market." The prize for victory is considerable: Europeans currently are spending approximately $7 billion to feed their pets and sales are projected

to grow at a rate of more than 5 percent a year.

Says Raillard: "In pet products, we're making our first effort to develop a comprehensive European product strategy—the first time we've tried to think 'Europe,' before thinking 'country.' It's a big step." With the elimination of trade barriers between member countries of the European Community on January 1, 1993, such thinking acquires new urgency.

To aid him in his efforts, Raillard has "press-ganged" some 85 managers from various European affiliates to help channel production from the Bloomsburg, Pennsylvania, plant into Europe. Increasingly, the group has found ways to introduce branded products. Last March saw the successful launch of 9-Lives cat food and Award dog food in the U.K., the first entries in a pan-European product range.

Does this mean Morris could become the first Eurocat? "I think Europeans will get to know Morris very soon," Raillard says with a grin.

The Man in the Middle

"One thing we've found," says Mike Walters, waving his hand toward an office credenza covered with jars and boxes, "is that new product development doesn't have to start from scratch. There's no reason we can't transfer a successful product from one country to another. To that country, it's still a new product." As Heinz's director of European Inter-Affiliate Sales, Walters has been charged with "transplanting success" throughout Europe.

His office in Hayes Park, England, is a virtual museum of Heinz products, collected from every corner of the globe. For Walters, it serves as both trophy case (in scarcely more than a year on the job, he helped launch scores of products) and Heinz sample box. For, wherever he goes, Walters is always selling.

He walks around his office, picking up one product after another: A plastic squeeze bottle of mustard that Heinz Central Europe developed after seeing a similar product made and sold by Heinz Canada. A range of dietary therapeutic products made by Heinz Italy for the Portuguese market. "Here's an interesting one," he says. "Baked beans for the French market, produced in our Kitt Green factory. We don't market them as English, of course. We use American recipes and sell them as *le vrai goût d'Amerique,* the real taste of America." Shades of *Les Pierrafeu.*

It's lunch time. But Mike Walters isn't free for lunch today. He's going running—in training for the London Marathon, just a few weeks away. "With 350 million potential consumers, this is a big opportunity," Walters says as he laces up his running shoes. "But our strategy isn't exactly rocket science." Perhaps not. Still, it's remarkable how much mileage these Heinz Euromarketers can get out of a simple product idea.

Staying With It

**FOR 30 YEARS,
WEIGHT WATCHERS HAS HELPED PEOPLE
DISCOVER THE BENEFITS
OF A HEALTHIER LIFESTYLE.
TODAY, ITS MESSAGE IS EVEN
MORE TIMELY.**

"It is better to look good than to feel good," Billy Crystal used to opine, in his role as the glib talk-show host Fernando on "Saturday Night Live." Fortunately, Weight Watchers members—who over the years have numbered more than 25 million people—don't have to make the choice. Losing weight helps them look more attractive and enables them to feel healthier and more active. And what the program teaches about nutrition, exercise and behavior modification will help them stay that way.

"Weight Watchers isn't a diet," says Les Parducci, president and CEO of Weight Watchers International. "It's a lifestyle program that teaches people how to change behavior patterns, how to make smarter food choices, to increase their physical activity, and to develop a more positive self-image. Because the real challenge isn't just helping people lose weight, it's helping them keep it off."

Stronger Than Will Power

Indeed, it was frustration with dieting that brought Weight Watchers into being. Jean Nidetch, a homemaker from Queens, had all but given up on a diet prescribed by a New York City Department of Health obesity clinic. In desperation, she turned to friends for support. With their encouragement and compassion, she managed to lose 72 pounds—and discovered in the process a force more powerful than sheer will power: group support. From living rooms to church basements to school auditoriums, a movement was born.

Today, Nidetch, a self-proclaimed F.F.H. ("Formerly Fat Housewife") still travels the globe on behalf of Weight Watchers—lecturing, cajoling, inspiring. Even in her sixties, she looks, as Fernando might say, "mahvelous." And she remains as outspoken and iconoclastic as ever. "If Weight Watchers has helped the life of one person and that one person goes on to do something great, then that suits me fine," she recently told *USA Today*.

From the outset, Weight Watchers has flown in the face of dieting convention. The program has stressed that weight loss must be gradual, that you must eat well in order to lose weight effectively. ("Never skip a meal!" has always been a maxim.)

The need for regular, moderate exercise has likewise been a cornerstone of the Weight Watchers approach. Exercise increases the body's metabolic rate—so you burn more calories, even at rest. Moreover, it is a key to keeping weight off.

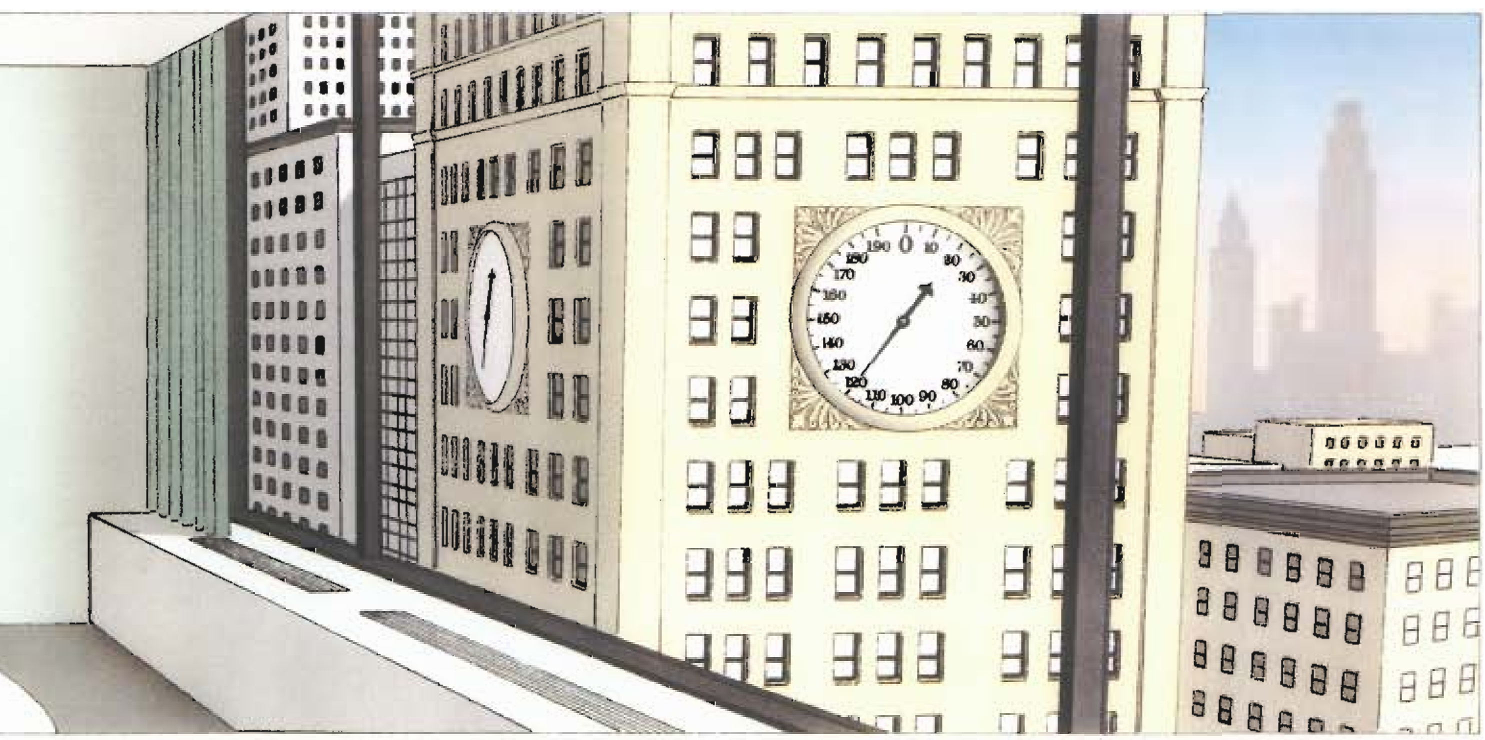
Though the basic philosophy of Weight Watchers has changed little over the years, the program has introduced many innovations to meet the challenges of maintaining healthy habits amid the rhythms of our fast-paced, on-the-go lives.

A Model Approach

As America tries to come to terms with the ballooning cost of health care, Weight Watchers offers a model for a grass-roots preventive approach. "Obesity is a problem for more than 34 million people in this county. And, it's been estimated that the health care costs associated with obesity total more than $140 billion a year," says George Christakis, M.D., Weight Watchers medical director. "Helping Americans to reduce body fat and increase their cardiovascular fitness could go a long way toward lowering the enormous cost of heart disease and strokes."

Indeed, as the world's largest organization dedicated to the problem of obesity, Weight Watchers has a pivotal role to play in increasing public awareness of preventive health care. And, on a national level, such awareness is sorely lacking. In a recent Gallup poll of American women, for example, only 4 percent of those surveyed said heart disease was the greatest threat to women's health. Yet heart disease remains the leading killer of women in the U.S. What's more, only 55 percent of respondents said they had taken any measures to prevent it.

Although Weight Watchers has come a long way from its modest origins, it clearly has a much larger role to play. The limits to its growth are nowhere in sight. "Health management is going to be to the '90s what energy was to the '70s or corporate takeovers were to the '80s," says Parducci. "It's a very personal concern—but one that has enormous implications for the economy. And I think we're better positioned than anyone to contribute to the solution."



Working Smarter

HOW DO YOU TURN AN AGING FACTORY INTO A WORLD-CLASS JUGGERNAUT? NOT JUST BY UPGRADING THE EQUIPMENT— BUT BY TAPPING THE INGENUITY OF ITS PEOPLE.

When Frank McCreary reported for work on February 23, 1992, he knew his life would never be the same. "I've been working here for 32 years," says McCreary, a soup cook at Heinz U.S.A.'s newly refurbished Pittsburgh factory. "And the day I walked into the new factory—well, I'm not going to lie to you—it scared the hell out of me."

McCreary's "future shock" was understandable. The Pittsburgh plant is the oldest in the company, dating back to the days of the Founder in the late 19th Century. Spread over 20 floors in five buildings, its layout had a 19th Century character as well. To bring it fully into the 21st required two and a half years of effort and an investment of $116 million.

The size and output of the new factory are indeed overwhelming: 553,000 square feet of space…680 miles of wire…14 miles of piping. Computer-controlled equipment enables workers to produce and package products at mind-bending speed. In a single shift, the high-speed lines are able to fill 350,000 cans of soup—double the previous capacity.

But the most remarkable achievement of the factory's revitalization lies in the dedication and ingenuity of its employees. Soup cooks and filler operators who have relied upon tried-and-true methods of food production for decades have mastered computer technologies with an agility that has dumbfounded their trainers, their supervisors and, occasionally, even their grandchildren. In the process, they have discovered a new sense of teamwork and a new pride in achievement.

"I was 50 years old when I started training on the new equipment," says McCreary. "I said: 'You can't teach an old dog new tricks.' But they did. They surprised me and I surprised me."

A Sense of Adventure

Behind the new plant's success lies a massive investment in training, directed toward enhancing—not supplanting—the skills of its seasoned work force. "From the beginning," says John Turyan, general manager for the Pittsburgh project, "we believed that if you get people into an environment where they want to learn—where it's their future, their jobs, their success—they can do it."

With the aid of a $140,000 job-training grant from the Commonwealth of Pennsylvania, Heinz U.S.A. provided workers with an array of training tools—evaluation of basic skills, educational counseling, literacy education, classroom instruction and training on the factory floor. "Classroom instruction and on-the-job training went hand-in-hand," says Jim Douglas, a soup cook. "All the supervisors have been very cooperative. They knew we were in this for the long haul. So, it became a learning experience, every day something different."

Building a brand-new factory amid the rubble of the old was an adventure—of long hours and sleepless nights, of surprises and of setbacks. Yet during the entire transition, the plant never lost a single day of production. Observes Turyan: "For the people who made this project happen—the trainers, the computer programmers, the process engineers, the people on the line—it was more than a job, it was a commitment. And they lived it passionately."

Even with the factory up and running, the spirit of experiment and adventure continues. And it has brought an unprecedented degree of employee involvement in day-to-day management. "I've heard for years around here: 'Why don't you give us more challenge, more responsibility on the line?' " says plant manager Ed Sonnet. "Well, here's the opportunity to do it. We've given our people the training and experience. Now we're giving them the flexibility to solve problems and take responsibility."

JIM DOUGLAS FRANK McCREARY ROSE HINES

"helps people lose their fear of the unknown, the fear of what technology might do to them. It helps them feel they're taking charge of their own job security." And that take-charge momentum has continued with team-based quality and safety efforts that have slashed workers' compensation costs by 60 percent and helped make Heinz the quality leader of the pet food industry.

In England, at Heinz's Harlesden and Kitt Green factories, worker-led Process Evaluation Teams are helping to streamline factory operations and improve quality, in some cases reducing overhead by as much as 40 percent. The teams develop their own plans, present them to co-workers and work to implement the changes—with scarcely any direct intervention by management.

No Turning Back

Empowering employees brings its own set of challenges, however.

Bill Johnson, president and CEO of Heinz Pet Products, notes: "The hardest thing to do is to let people make mistakes. Even with all the training in the world they're still going to. We need to incorporate those mistakes into the learning process of the organization, so that everybody profits from them."

Despite the challenges, few Heinz employees could envision going back to the old ways. Says Pittsburgh filler operator Rose Hines: "We have a lot of dedicated people here...people who truly care about their jobs and about the products we make. When I go to the supermarket, I always take a good look at the baby food shelves, at the products I help to make. And, you know, they look pretty good sitting up there. I'm really proud of what we do."

A Growing Revolution

The Pittsburgh revitalization is far from an isolated phenomenon. A similar enthusiasm exists at the Bloomsburg, Pennsylvania, pet products factory, transformed by a $68-million expansion into the largest and most cost-efficient operation in the pet food industry. "At Bloomsburg," says Colin Corbett, regional manufacturing manager, "we didn't start from a large base of experienced employees. We had to train 500 employees in about eight months. That was a real challenge."

Still, as in Pittsburgh, the urgency of the task gave employees an enhanced sense of responsibility for the project's success. "Training," says Corbett,

Brand leadership propels Heinz toward continual global growth. A full 56% of Heinz's worldwide sales come from products that are number-one in their respective markets. The following review of major affiliates reveals record market shares, increasing volumes, new products and improved efficiency.

THE AMERICAS

Heinz U.S.A.

Heinz ketchup market share surpassed 50% . . . Salsa-style ketchup and 20-oz. ketchup bottle introduced . . . Chef Francisco food-service soups increased sales 26% . . . Heinz Bell 'Orto tomato products tripled in volume . . . Single-serve ketchup grew 10% . . . Heinz cleaning vinegar launched.

Ore-Ida

Ore-Ida volume rose 11.5% . . . Frozen potato market share exceeded 47% . . . Fast Fries™ and Mashed Potatoes led new product surge that included 59 new offerings for either retail, warehouse clubs or foodservice . . . Battered French fries for retail markets scored 25% volume increase.

StarKist/Heinz Pet Products

Tuna volume soared 13% . . . StarKist market share hit 42%, with total tuna product share near 50% . . . New Charlie's Lunch Kit generated $40 million in sales . . . Pet food volume rose 7.5% . . . Canned cat food share was 28%, while canned dog food was more than 15%. Big brands were 9-Lives, with 24%; Reward premium dog food at 22%; and Meaty Bone at nearly 16%.

Weight Watchers International

Weight Watchers meetings captured 53% of market . . . "The New Weight Watchers" program inaugurated, dramatically revamping meetings and materials . . . Personal Cuisine Centers total upped to 195 and 12 new products added . . . "Quick and Simple" programs introduced in Europe.

Weight Watchers Food Company

Frozen food volumes jumped 25% . . . Frozen entrees captured 13% of market . . . Smart Ones™ line of frozen entrees launched, along with dozens of other Weight Watchers brand products . . . Frozen desserts took 32% share to become #1 individual-serving frozen dessert in U.S. . . . Sweet Celebrations sub-brand of desserts launched.

Heinz Canada

Total sales volume leaped nearly 13% . . . Retail ketchup attained a 72% share while foodservice ketchup got 78% . . . Baby food took a remarkable 90% of its market . . . 14 Weight Watchers brand foods introduced.

Alimentos Heinz (Venezuela)

Retail ketchup volume jumped 30% . . . Pronto spaghetti sauce launched, boosting share of that market to 44% . . . Sonrissa brand desserts acquired, with a 36% market share.

EUROPE AND AFRICA

Heinz U.K.

Soup remained the leader with 58% of its market, while beans took 46% and retail ketchup held 53% . . . Baby food was the favorite of 51% of consumers . . . Foodservice sales increased 10% . . . Weight Watchers from Heinz became the largest brand in the low-calorie sector . . . SousChef acquisition made advanced processing technology available . . . Inter-affiliate sales brought Britons 9-Lives cat food and tuna from StarKist.

Heinz Italia

Total volume rose 12% . . . Baby food in jars scored 21% sales increase to record levels . . . Arimpex acquisition brought $37 million in foodservice sales . . . Nipiol baby juices stepped up sales 15% . . . Nutritional/therapeutic foods raised their volume by 34% . . . Misura sweetener tablets introduced, winning 27% of their market.

Heinz Central Europe

Total volume gains reached 9%, with a 45% boost in Switzerland/Austria . . . Spagheroni pasta sauce secured leadership in Belgium and Holland . . . Sandwich spread attained an 80% share in Holland . . . Ketchup reached new high with 35% share in France.

Heinz Iberica (Spain)

Tomate frito cooking sauce achieved a record market share of 39%, twice that of the #2 brand . . . Total ketchup sales exceeded 30% of the market . . . Sales of tomate triturado crushed tomatoes reached 12% market share.

IDAL (Portugal)

Maintained leadership in all segments of tomato-based products market . . . Expanded its foodservice business nationally . . . Processed 132,500 tons of tomatoes and is Europe's largest tomato packer.

Copais (Greece)

Began developing foodservice products as part of Euroselling strategy . . . Launched Heinz diced tomatoes in Italy, France, Belgium and U.K.

Heinz Ireland

Overall sales grew 8% . . . Ketchup volume jumped 24% . . . Custom Foods plant opened to make chilled and frozen products.

Magyar Foods (Hungary)

New joint venture formed, manufacturing in Hungary and marketing throughout Eastern Europe . . . Product lines include baby foods; tomato paste, powder and sauces; salad dressings; canned sweet corn and peas; pickles; and jams.

Olivine (Zimbabwe)

Sales leadership maintained in soaps, margarine, vegetable oil and canned vegetables, despite severe drought . . . Chegutu Canners opened new plant for production of beans and soups.

Kgalagadi Soap Industries (Botswana)

New advertising strategies, packaging and pricing helped Blue Soap sales leap 84%, while laundry and baby soap sales increased 48% and 11%, respectively.

THE PACIFIC RIM

Heinz Australia

Wet baby food reached highest market share ever at 88% . . . Canned soups captured 45% of their market, while beans, spaghetti and mini-meals held their lead . . . Weight Watchers brand mayonnaise boosted sales volume 62% . . . Tomato sauce market share rose to 19%.

Wattie's Limited (New Zealand)

Acquisition added full array of products for Asia/Pacific market . . . Frozen product sales saw robust growth, including an 18% jump for corn, an 8% rise for stir-fry vegetables and a 5% increase for French fries . . . Tegel boneless chicken and Tip Top frozen desserts also grew.

Heinz Japan

Ore-Ida "Ohayo" hashed-brown potato sales jumped more than 26%, giving it a record market share of 26.4% . . . Grocery ketchup also boosted sales in excess of 26% . . . Ore-Ida French fries, 9-Lives canned cat food and Italian pasta sauce also recorded higher market shares.

Heinz-UFE (China)

Packaging reformulated and updated for entire baby food cereal line . . . New wheat cereals and mixed cereals introduced . . . Enriched, flavored milk powder products introduced to provide young children good-tasting nutrition.

Seoul-Heinz (Korea)

Margarine sales to confectionery and bakery manufacturers grew 15% . . . Record number of new margarine products introduced.

Heinz Win Chance (Thailand)

Four varieties of canned tuna launched nationally . . . Ketchup received "best quality award" from University of Agriculture.

In 1993, the H.J. Heinz Company produced record sales and attained record market shares in almost all categories domestically and abroad. It also continued the restructuring strategy, begun in 1992, designed to realign its worldwide portfolio of businesses to take advantage of changing economic and market conditions. Specifically, the company enlarged and consolidated its position in the Pacific Rim through the acquisition of Wattie's Limited (a producer of a broad range of grocery products in New Zealand); established an Asia/Pacific group to focus on this area as a key growth market for the future; acquired a foodservice distribution company in Italy; and acquired several Weight Watchers franchises. The company also recorded pretax restructuring charges of $192.3 million to accelerate productivity improvements, reduce the worldwide workforce and streamline operations in line with new trade agreements.

The results of operations for 1993 and 1992 included the adoption of certain prescribed accounting changes and the effect of the restructuring strategy. In 1993, the company adopted the new accounting standard for retiree health benefits (FAS No. 106)—which decreased net income by $133.6 million ($0.51 per share)—and also recorded pretax charges of $192.3 million ($0.45 per share) for restructuring operations. In 1992, the company recorded pretax restructuring charges of $88.3 million ($0.20 per share), sold The Hubinger Company for a pretax gain of $221.5 million ($0.53 per share) and adopted FAS No. 109, "Accounting for Income Taxes" (the effect of which was immaterial).

RESULTS OF OPERATIONS

1993 versus 1992: Sales for 1993 increased $521.5 million, or 7.9% to $7.10 billion. The sales increase came primarily from volume and acquisitions, partially offset by the effects of the stronger U.S. dollar against most foreign currencies.

Volume increased 5.7% or $376.6 million and reflects sustained marketing support and restructuring initiatives that occurred in 1992. Approximately 70% of the volume increase came from domestic operations, with gains in StarKist tuna, Weight Watchers brand entrees, desserts and specialty foods, 9-Lives cat food, Ore-Ida frozen potatoes, coated frozen foods, various dog foods, Chef Francisco frozen soups and Heinz foodservice ketchup. Domestically, volume declines occurred in Weight Watchers meeting operations, Heinz grocery ketchup and Heinz baby food. Overseas, volume increases were noted in baby food, Heinz ketchup, and sauces and pastes, with declines in Heinz soup and beans.

Acquisitions, net of divestitures, accounted for $245.6 million, or 3.7%. Companies acquired during the year included Wattie's Limited (a producer of a broad range of grocery products in New Zealand), Arimpex (an Italian foodservice distribution company) and several Weight Watchers franchises.

For the second year in a row, unfavorable foreign currency translation rates adversely impacted sales. Declines came principally from the stronger U.S. dollar versus the United Kingdom pound sterling, the Italian lira, the Zimbabwe dollar, the Canadian dollar and the Australian dollar. The net reduction in sales attributable to foreign exchange translation losses was $120.7 million, or 1.8%.

Prices were flat year-on-year, with increases in foreign prices offset by domestic declines. Increases in baby food, soups, Weight Watchers meeting operations and Weight Watchers brand desserts, StarKist white meat tuna, edible oils, margarines and soaps were offset by price declines in Ore-Ida frozen potatoes, various pet foods, StarKist light meat tuna, Weight Watchers brand frozen entrees, Heinz beans and domestic Heinz ketchup.

Gross profit increased $93.8 million in 1993 to $2.57 billion from $2.48 billion, primarily as a result of the increase in sales. The ratio of gross profit to sales declined to 36.2% from 37.7%. The decline in the gross profit ratio was principally the result of increased restructuring charges associated with consolidating and downsizing manufacturing operations; the ratio was favorably impacted by product mix, cost efficiencies realized at the company's pet products operations and lower raw fish prices. Excluding the 1993 restructuring charge, the gross profit ratio would have been 38.2%.

In 1993, the company continued to invest heavily in marketing its brands. Total marketing

support, which consists of trade and consumer promotions and media, increased approximately 3% over the record level established in 1992. Increased marketing support was noted primarily in Ore-Ida frozen potatoes and Weight Watchers brand entrees and at Wattie's Limited in New Zealand.

Selling, general and administrative (SG&A) expenses increased $117.9 million to $1.71 billion from $1.59 billion, primarily due to: increased marketing; higher selling and distribution expenses resulting from the increased sales volume; and, the curtailment gain of the domestic salaried defined benefit pension plan included in the 1992 results. (See Note 10 to the Consolidated Financial Statements.) As a percentage of sales, SG&A expenses declined to 24.1% in 1993 from 24.2% in 1992.

Operating income declined $245.6 million in 1993 to $860.9 million from $1.11 billion in 1992. The decline in operating income year-on-year was primarily due to higher restructuring charges recorded in 1993 and the inclusion in 1992 of the gain on the sale of The Hubinger Company. Operating income as a percentage of sales declined to 12.1% in 1993 from 16.8% in 1992.

The $192.3 million pretax restructuring charges in 1993 will be used to accelerate productivity improvements, streamline operations in line with new trade agreements and reduce the worldwide workforce. Among the actions Heinz plans to take are to: reconfigure manufacturing operations between the United States and Canada; downsize operations in the United Kingdom, Italy and Ore-Ida; implement a transformative agreement with labor unions in Australia; restructure the administration of Weight Watchers International; consolidate sales service functions in North America with the recently established Heinz Service Company; and combine administrative functions of Heinz Pet Products and StarKist.

Non-operating expenses totaled $145.1 million in 1993 compared to $122.2 million in 1992. The increase was primarily due to higher interest expense resulting from higher average debt, offset partially by lower average interest rates. The higher average debt resulted from borrowings for acquisitions, higher operating needs, capital expenditures and purchases of treasury shares. Also contributing to the increase in non-operating expenses was lower interest income as a result of a reduction in the company's Italian short-term investment portfolio. Partially offsetting the increase were higher foreign government grants.

The effective tax rate was 26.0% in 1993 and 35.2% in 1992. The 1993 effective rate of 26.0% resulted from tax benefits overseas and the recognition of foreign tax credits associated with the company's overseas dividend strategy. The effective rate on income from operations before the current year charges for postretirement benefits and restructuring was 29.0%. (See Note 5 to the Consolidated Financial Statements.)

In 1993, the company adopted FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The company elected to immediately recognize the transition obligation. The cumulative effect of adopting FAS No. 106 was $133.6 million ($0.51 per share) and the incremental current year after-tax effect was $9.9 million ($0.04 per share). (See Note 11 to the Consolidated Financial Statements.)

Net income declined $242.0 million in 1993 to $396.3 million from $638.3 million in 1992 and net income per share declined to $1.53 from $2.40. The 1993 results include the effect of the prescribed accounting change, the company's restructuring strategy and the lower effective tax rate. The 1992 results include the gain on the sale of The Hubinger Company. Domestic operations provided 54.2% of net income and benefited from the recognition of foreign tax credits associated with the company's overseas dividend strategy, while foreign operations provided 45.8%. Excluding the effect of the adoption of FAS No. 106, domestic operations provided 62.9% of net income.

1992 versus 1991: Sales for 1992 decreased $65.3 million, or 1.0%, from $6.65 billion to $6.58 billion. The sales decline was primarily due to the strengthening of the U.S. dollar against most foreign currencies and to divestitures. Partially offsetting the sales decline were price increases and acquisitions. Volume remained unchanged from 1991.

The unfavorable foreign currency translation rates adversely impacted sales by approximately

$170 million. Declines came primarily from the stronger U.S. dollar versus the United Kingdom pound sterling, Zimbabwe dollar and Italian lira.

Sales prices increased 1.0% in 1992 as a result of price increases overseas. These foreign price increases were noted in most of the company's products, including Heinz baby food, Heinz soup, soap, pasta, margarine/shortening and edible oils. Domestically, prices increased for various dog food products, private-label soup and Heinz baby food. The domestic price increases were more than offset by price declines in StarKist tuna, Heinz ketchup, 9-Lives cat food, Weight Watchers brand products and Ore-Ida frozen potatoes.

Volume increased at domestic operations and declined at foreign operations. Domestically, volume gains came principally from StarKist tuna, Heinz ketchup, private-label soup and Weight Watchers brand specialty foods. Volume declines occurred in various dog foods, 9-Lives cat food, Ore-Ida frozen potatoes, Weight Watchers brand products, and frozen meats. Foreign volume declines occurred in Canada, the United Kingdom and Venezuela. Foreign volume declines were noted in Heinz soup, Heinz beans and Heinz ketchup; volume increases occurred in Heinz baby food and Weight Watchers brand entrees.

Acquisitions, net of the effects of divestitures, did not have a significant impact on sales. JLFoods was acquired in August 1991. Divestitures included Caribbean Restaurants, Inc. in April 1991 and The Hubinger Company in June 1991.

Gross profit in 1992 decreased $104.6 million or 4.1% and the ratio of gross profit to sales decreased to 37.7% from 38.9%. The reduction in gross profit and the gross profit ratio was due to increased trade promotions (particularly in the domestic market), restructuring charges, and a change in profit mix attributable to the divestiture of Caribbean Restaurants, Inc. and the purchase of JLFoods. In addition, gross profit was adversely affected by glut crops of potatoes and tomatoes.

Total marketing support increased approximately $200 million or 15.3% from 1991. Media spending decreased due primarily to management's decision to focus on trade and consumer promotions. The company's major brands (Heinz ketchup, Weight Watchers brand products and meeting operations, 9-Lives canned cat food and Ore-Ida frozen potatoes) were the primary recipients of the increased expenditures.

Selling, general and administrative (SG&A) expenses increased 3.1%. As a percentage of sales, SG&A expenses increased to 24.2% in 1992 from 23.3% in 1991. The increase was due to restructuring charges at both domestic and overseas operations and the increase in consumer promotions. These costs were partially offset by a gain from the curtailment of the domestic salaried defined benefit plan. (See Note 10 to the Consolidated Financial Statements.)

Operating income, which included the gain of $221.5 million from the sale of The Hubinger Company, increased 6.7% to $1.11 billion and the operating ratio improved to 16.8%. The gain arising from the sale of The Hubinger Company was used to increase marketing support (approximately $200 million) principally for the company's domestic core brands and to partially underwrite $88.3 million of restructuring charges that occurred throughout the company. The restructuring included the formation of the Weight Watchers Food Company, consolidation of functions, staff reductions, plant consolidations and modernizations. These restructuring charges were partially offset by a pretax gain of $38.8 million due to the curtailment of the domestic salaried defined benefit pension plan. Operating income also reflected: the loss of income from the divestiture of The Hubinger Company and Caribbean Restaurants, Inc., partially offset by the acquisition of JLFoods; a decrease in United Kingdom and Canadian results of operations due to economic conditions prevailing in those countries; and the strengthening of the U.S. dollar against most foreign currencies.

Total non-operating expenses decreased $11.9 million from $134.1 million in 1991 to $122.2 million in 1992 as a result of lower net interest expense of $14.3 million. The decrease was primarily the result of higher interest income from Italian investments. The effect of reduced commercial paper interest rates was substantially offset by an increase in average debt outstanding. The higher average debt resulted from borrowings for acquisitions, net of cash received for divestitures, purchases of treasury shares and higher operating needs.

In the fourth quarter of 1992, the company adopted FAS No. 109, "Accounting for Income Taxes." The cumulative effect of the accounting change did not have a material impact on the results of operations. (See Note 5 to the Consolidated Financial Statements.)

The decline in the effective tax rate from 37.1% to 35.2% was due to the company's foreign tax credit position, higher tax benefits from U.S. possession subsidiaries, the settlement of certain overseas tax liabilities, and the 1992 effect of the change in the method of accounting for income taxes. This decrease was partially offset by an increase in state income taxes. (See Note 5 to the Consolidated Financial Statements.)

Net income rose 12.4% in 1992 to $638.3 million. Net income per share rose 12.7% to $2.40 per share from $2.13 per share in 1991. Domestic operations provided 63.1% of net income in 1992 and foreign operations provided 36.9%.

LIQUIDITY AND FINANCIAL POSITION

Return on average shareholders' equity (ROE) before the cumulative effect of adopting FAS No. 106 was 22.0% in 1993, 27.5% in 1992 and 27.3% in 1991. Pretax return on average invested capital (ROIC) was 18.7% in 1993 compared to 28.8% in 1992 and 31.3% in 1991. The decline in both ROE and ROIC was primarily attributable to the increased restructuring charges recorded in 1993 and recent acquisitions.

Cash provided by operating activities was $411.9 million in 1993, compared to $477.2 million in 1992. The decrease was primarily the result of increased working capital, specifically receivables, inventories and income taxes payable.

In 1992, cash provided by operating activities decreased $255.6 million to $477.2 million, from $732.8 million in 1991. The decline was primarily due to increased marketing support in 1992 and increases in receivables and inventories. Partially offsetting these items were restructuring liabilities and an increase in income taxes payable. The cash used to fund marketing support was primarily underwritten by the proceeds from the sale of The Hubinger Company, which were included in cash flows from investing activities.

Cash used for investing activities was $829.8 million in 1993. Capital expenditures totaled $430.7 million and included plant modernizations, reconfiguration of operations, and cost improvement projects. Acquisitions totaled $370.2 million, and included: the purchase of Wattie's Limited (see Note 2 to the Consolidated Financial Statements); Arimpex (a foodservice distribution company in Italy); Weight Watchers franchises in Chicago, Wisconsin, Minnesota and Kentucky; and assets of a Venezuelan company which produces gelatins and puddings. The company also paid the second and final installment ($32.3 million) to the Italian government for the revaluation of certain assets. (See Note 5 to the Consolidated Financial Statements.)

Net purchases and sales of short-term investments in 1993 resulted in a cash inflow of $13.3 million, which was principally the result of investment activity in Italian short-term securities.

Cash used for investing activities in 1992 increased to $604.0 million from $487.2 million in 1991. Investing activities in 1992 included capital expenditures totaling $331.1 million, which were the result of investment in productivity improvements and capital expansion projects at various domestic and overseas operations, including Heinz U.S.A., Ore-Ida and the United Kingdom.

Acquisitions in 1992 required $574.1 million. Acquisitions included: JL Foods (see Note 2 to the Consolidated Financial Statements); Continental Delights, Inc., a manufacturer of frozen sandwiches; Escalon Packers, Inc., a specialty processor of branded and foodservice tomato products; Sausville Foods, Inc., a producer of various frozen bakery products; a joint venture, Cairo Foods Industries SAE, a producer of ketchup and other sauces in Cairo, Egypt; and certain Weight Watchers franchises.

Divestitures in 1992 resulted in a cash inflow of $344.0 million, which was primarily the result of the sale of The Hubinger Company. (See Note 3 to the Consolidated Financial Statements.) Other divestitures did not have a material impact on the results of operations.

In 1992, net purchases and sales of short-term investments resulted in a cash outflow of $14.5

million which was principally the result of investment activity in Italian short-term securities. Also included in investing activities was a cash outflow of $44.7 million related to the partial payment to the Italian government for the revaluation of certain assets for tax purposes. (See Note 5 to the Consolidated Financial Statements.)

Cash provided by financing activities totaled $405.2 million in 1993. Proceeds from long-term debt provided $969.4 million primarily due to issuances totaling $750 million under the company's "shelf registration" filed with the Securities and Exchange Commission. Also included in cash provided by financing activities were proceeds from the issuance of £125 million ($197.0 million) of 8.85% Notes. These notes were issued by the company's United Kingdom affiliate and were privately placed with various banks. The proceeds of the above-mentioned issuances were used to refinance existing debt. (See Note 6 to the Consolidated Financial Statements.)

Payments on long-term debt totaled $240.2 million in 1993 and were mainly the result of the payment of the NZ$150.0 million debt ($84.3 million). Also, in April 1993, an affiliated company paid £70.6 million ($111.3 million) for an interest in the 8.85% £125 million Notes discussed above. (See Note 6 to the Consolidated Financial Statements.)

In 1992, cash provided by financing activities totaled $62.9 million and was primarily the result of an increase in proceeds from short-term borrowings. The short-term borrowings, along with cash provided by operations, were used for acquisitions, purchases of treasury stock, capital expenditures and payment of dividends. Payments on long-term debt totaled $134.0 million and included the payment of the Australian dollar debt.

During 1993, the Board of Directors authorized an increase of 11.1% in the quarterly dividend for common stock from 27 cents per share to 30 cents per share. The company spent $297.1 million to pay dividends to both common and preferred shareholders, an increase of $26.5 million over 1992. The dividend rate in effect at the end of each year results in a payout ratio (before the cumulative effect of the accounting change) of 58.8% in 1993, 45.0% in 1992, and 45.1% in 1991.

Cash provided by financing activities also included the purchase of treasury stock. In 1993, 3.9 million shares were repurchased at a cost of $148.5 million. As of April 28, 1993, 9.6 million shares were repurchased as part of the authorized 10 million share repurchase program, which began in December 1991. Subsequent to year-end, this share repurchase program was completed, and on June 9, 1993, the company announced that its directors authorized the repurchase of up to an additional 10 million shares of common stock. The purchases will take place over an extended period of time.

During 1992, 10.3 million shares were purchased at a cost of $398.1 million.

The company intends to reissue repurchased shares upon the exercise of stock options, conversion of preferred stock and for general corporate purposes.

In both 1993 and 1992, the company maintained short-term line of credit agreements totaling $1.18 billion to support domestic commercial paper. The domestic commercial paper had a weighted average interest rate during 1993 of 3.4% and at year-end of 3.2%. In 1992, the weighted average rate was 4.8% and the rate at year-end was 4.0%. These agreements expire or are cancellable nine to twelve months after year-end, unless otherwise extended.

In November 1992, the FASB issued FAS No. 112, "Employers' Accounting for Postemployment Benefits." This statement requires recognition of benefits provided by an employer to former or inactive employees after employment but before retirement. The statement must be implemented no later than Fiscal 1995. Currently, the company is studying the standard. However, neither the period in which the new standard will be adopted nor the impact of the adoption, if any, have been determined.

The impact of inflation on both the company's financial position and results of operations has been minimal and is not expected to adversely affect 1994 results.

The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders.

RECENT DEVELOPMENTS

On July 1, 1993, the company purchased both the Moore's and Domani product lines from the Clorox Company of Oakland, California. The Moore's product range includes coated frozen foods, specifically breaded onion rings, breaded cheeses and vegetables. Domani offers pasta, including manicotti, shells, tortellini, ravioli and lasagna. The acquisition strengthens the company's presence in the foodservice industry. Pro forma results of this acquisition when combined with other acquisitions made during 1993, assuming they had been made at the beginning of each year presented, would not be materially different from the results reported.

On May 18, 1993, the company sold its Chico-San rice cake business to the Quaker Oats Company of Chicago, Illinois. The divestiture includes brand names, inventory and Chico-San's Gridley, California plant. The divestiture will not materially affect the results of operations or financial condition of the company.

STOCK MARKET INFORMATION

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 24, 1993 approximated 55,900. The closing price of the common stock on the New York Stock Exchange composite listing on April 28, 1993 was $36.

Stock price information for common stock by quarter follows:

	Stock Price Range	
	High	Low
1993		
First	**$39⅞**	**$35¼**
Second	**42⅝**	**37⅝**
Third	**45½**	**38½**
Fourth	**45¼**	**35¼**
1992		
First	$38⅝	$36⅝
Second	48⅝	36⅞
Third	42⅜	36¾
Fourth	41⅞	35⅛

SEGMENT AND GEOGRAPHIC DATA

The company is engaged principally in one line of business—processed food products—which represents more than 90% of consolidated sales. The following table presents information about the company by geographic area. 1992 and 1991 geographic data have been restated to reflect the Asia/Pacific geographic area. There were no material amounts of sales or transfers among geographic areas and no material amounts of United States export sales.

		Foreign						
(Dollars in thousands)	Domestic	United Kingdom	Continental Europe	Canada	Asia/ Pacific	Other	Total	Worldwide
1993								
Sales	**$4,049,901**	**$853,525**	**$1,099,306**	**$380,015**	**$565,465**	**$155,162**	**$3,053,473**	**$7,103,374**
Operating income†	**412,998**	**107,518**	**192,945**	**65,055**	**58,620**	**23,749**	**447,887**	**860,885**
Identifiable assets	**3,930,173**	**814,392**	**957,746**	**366,731**	**669,420**	**82,859**	**2,891,148**	**6,821,321**
Capital expenditures*	**266,670**	**70,891**	**30,845**	**25,310**	**27,046**	**9,951**	**164,043**	**430,713**
Depreciation and amortization expense	**136,590**	**31,373**	**28,769**	**18,940**	**15,076**	**4,187**	**98,345**	**234,935**
1992								
Sales	$3,848,026	$897,209	$ 967,801	$383,755	$354,946	$130,130	$2,733,841	$6,581,867
Operating income	697,852	119,587	179,030	42,015	46,613	21,418	408,663	1,106,515
Identifiable assets	3,360,687	814,860	1,019,961	384,302	259,235	92,856	2,571,214	5,931,901
Capital expenditures*	226,758	36,109	26,776	19,871	13,060	8,569	104,385	331,143
Depreciation and amortization expense	125,649	30,359	26,072	18,870	6,860	3,976	86,137	211,786
1991								
Sales	$3,863,065	$938,583	$ 976,392	$397,377	$317,403	$154,298	$2,784,053	$6,647,118
Operating income	541,747	187,203	182,801	58,231	36,267	30,854	495,356	1,037,103
Identifiable assets	2,654,696	729,712	938,228	292,548	226,076	94,122	2,280,686	4,935,382
Capital expenditures*	199,151	55,459	55,283	20,033	9,298	6,110	146,183	345,334
Depreciation and amortization expense	122,983	28,307	22,285	12,458	6,172	3,933	73,155	196,138

*Excludes property, plant and equipment acquired through acquisitions.
†Fiscal 1993 domestic and total foreign operating income includes restructuring charges of $109.7 million and $82.6 million, respectively.

Fiscal Year Ended (Dollars in thousands except per share data)	April 28, 1993 (52 weeks)	April 29, 1992 (52 weeks)	May 1, 1991 (52 weeks)
CONSOLIDATED STATEMENTS OF INCOME:			
Sales	$7,103,374	$6,581,867	$6,647,118
Cost of products sold	4,530,563	4,102,816	4,063,423
Gross profit	2,572,811	2,479,051	2,583,695
Selling, general and administrative expenses	1,711,926	1,593,995	1,546,592
Gain on sale of The Hubinger Company	–	221,459	–
Operating income	860,885	1,106,515	1,037,103
Interest income	29,495	46,607	34,967
Interest expense	146,491	134,948	137,592
Other expense, net	28,108	33,829	31,465
Income before income taxes and cumulative effect of accounting change	715,781	984,345	903,013
Provision for income taxes	185,838	346,050	335,014
Income before cumulative effect of accounting change	529,943	638,295	567,999
Cumulative effect of FAS No. 106 adoption	(133,630)	–	–
Net income	$ 396,313	$ 638,295	$ 567,999
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS:			
Amount at beginning of year	$3,257,173	$2,889,476	$2,560,780
Net income	396,313	638,295	567,999
Cash dividends:			
Common stock	297,009	270,512	239,212
Preferred stock	78	86	91
Amount at end of year	$3,356,399	$3,257,173	$2,889,476
PER COMMON SHARE AMOUNTS:			
Income before cumulative effect of accounting change	$ 2.04	$ 2.40	$ 2.13
Cumulative effect of FAS No. 106 adoption	(.51)	–	–
Net income	$ 1.53	$ 2.40	$ 2.13
Cash dividends	$ 1.17	$ 1.05	$ .93

See Notes to Consolidated Financial Statements.

Assets (Dollars in thousands)	April 28, 1993	April 29, 1992
CURRENT ASSETS:		
Cash and cash equivalents	$ 68,432	$ 92,707
Short-term investments, at cost which approximates market	155,872	180,429
Receivables (net of allowances: 1993 – $16,299 and 1992 – $15,390)	978,935	830,787
Inventories:		
Finished goods and work-in-process	874,912	747,633
Packaging material and ingredients	310,516	287,249
	1,185,428	1,034,882
Prepaid expenses	172,630	126,738
Other current assets	62,114	14,769
Total current assets	2,623,411	2,280,312
PROPERTY, PLANT AND EQUIPMENT:		
Land	51,438	44,988
Buildings and leasehold improvements	732,488	655,323
Equipment, furniture and other	2,544,425	2,279,471
	3,328,351	2,979,782
Less accumulated depreciation	1,166,140	1,067,673
Total property, plant and equipment, net	2,162,211	1,912,109
OTHER NON-CURRENT ASSETS:		
Investments, advances and other assets	665,073	560,144
Goodwill (net of amortization: 1993 – $115,631 and 1992 – $88,892)	1,013,051	822,100
Other intangibles (net of amortization: 1993 – $72,673 and 1992 – $63,197)	357,575	357,236
Total other non-current assets	2,035,699	1,739,480
Total assets	$6,821,321	$5,931,901

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (Dollars in thousands)	April 28, 1993	April 29, 1992
CURRENT LIABILITIES:		
Short-term debt	**$1,570,462**	$1,608,325
Portion of long-term debt due within one year	**33,893**	115,770
Accounts payable	**533,835**	512,853
Salaries and wages	**76,624**	90,773
Accrued marketing	**112,277**	90,938
Other accrued liabilities	**301,301**	236,651
Restructuring reserves	**179,328**	50,523
Income taxes	**58,623**	138,171
Total current liabilities	**2,866,343**	2,844,004
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term debt	**1,009,381**	178,388
Deferred income taxes	**195,128**	335,644
Non-pension postretirement benefits	**221,684**	–
Other	**207,789**	206,467
Total long-term debt and other liabilities	**1,633,982**	720,499
SHAREHOLDERS' EQUITY:		
Capital stock:		
Third cumulative preferred, $1.70 first series, $10 par value	**438**	480
Common stock, 287,401,000 shares issued, $.25 par value	**71,850**	71,850
	72,288	72,330
Additional capital	**170,308**	165,112
Retained earnings	**3,356,399**	3,257,173
Cumulative translation adjustments	**(193,407)**	(85,801)
	3,405,588	3,408,814
Less:		
Treasury shares, at cost (33,036,046 shares at April 28, 1993 and 33,343,931 shares at April 29, 1992)	**1,046,905**	999,845
Unearned compensation relating to the ESOP	**37,687**	41,571
Total shareholders' equity	**2,320,996**	2,367,398
Total liabilities and shareholders' equity	**$6,821,321**	$5,931,901

Fiscal Year Ended (Dollars in thousands)	April 28, 1993	April 29, 1992	May 1, 1991
OPERATING ACTIVITIES:			
Net income	**$ 396,313**	$ 638,295	$ 567,999
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**185,962**	170,281	167,332
Amortization	**48,973**	41,505	28,806
Deferred tax provision	**(75,263)**	(77,295)	38,290
Gain on sale of The Hubinger Company	**–**	(221,459)	–
Prepaid foreign income taxes	**(5,978)**	(45,010)	12,183
Provision for restructuring	**179,328**	50,523	–
Cumulative effect of FAS No. 106 adoption	**133,630**	–	–
Other items, net	**(44,479)**	(4,018)	(64,863)
Changes in current assets and liabilities, excluding effects of acquisitions and divestitures:			
Receivables	**(137,499)**	(132,810)	(35,715)
Inventories	**(114,347)**	(25,015)	38,020
Prepaid expenses and other current assets	**(47,433)**	26,248	(664)
Accounts payable	**15,038**	(11,429)	33,935
Accrued liabilities	**(5,854)**	12,622	(24,312)
Income taxes	**(116,493)**	54,723	(28,256)
Cash provided by operating activities	**411,898**	477,161	732,755
INVESTING ACTIVITIES:			
Capital expenditures	**(430,713)**	(331,143)	(345,334)
Acquisitions, net of cash acquired	**(370,189)**	(574,136)	(109,032)
Proceeds from divestitures	**1,872**	344,036	22,500
Purchases of short-term investments	**(116,153)**	(373,248)	(171,020)
Sales and maturities of short-term investments	**129,462**	358,763	118,478
Investment in tax benefits	**(37,226)**	(53,272)	–
Other items, net	**(6,872)**	24,956	(2,794)
Cash (used for) investing activities	**(829,819)**	(604,044)	(487,202)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	**969,394**	823	5,278
Payments on long-term debt	**(240,246)**	(134,007)	(95,124)
Proceeds from short-term debt, net	**11,730**	756,666	42,160
Dividends	**(297,087)**	(270,598)	(239,303)
Purchase of treasury stock	**(148,511)**	(398,051)	(67,546)
Exercise of stock options	**72,043**	63,718	101,194
Tax benefits from stock options exercised	**34,036**	41,744	42,015
Other items, net	**3,884**	2,582	2,770
Cash provided by (used for) financing activities	**405,243**	62,877	(208,556)
Effect of exchange rate changes on cash and cash equivalents	**(11,597)**	5,734	(11,835)
Net (decrease) increase in cash and cash equivalents	**(24,275)**	(58,272)	25,162
Cash and cash equivalents at beginning of year	**92,707**	150,979	125,817
Cash and cash equivalents at end of year	**$ 68,432**	$ 92,707	$ 150,979

See Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: The company operates on a fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended April 28, 1993, April 29, 1992 and May 1, 1991.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All significant intercompany accounts and transactions were eliminated. Certain reclassifications were made to prior years' amounts to conform with the 1993 presentation.

Translation of Foreign Currencies: For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined principally under the average cost method.

Property, Plant and Equipment: Land, buildings and equipment are recorded at cost. For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes. Expenditures for new facilities and improvements that substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Income Taxes: The company accounts for income taxes in accordance with the provisions of FAS No. 109, "Accounting for Income Taxes." Deferred income taxes result primarily from temporary differences between financial and tax reporting. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability for temporary differences related to these earnings is not practicable. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes. In cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statements of Income.

Net Income Per Common Share: Net income per common share has been computed by dividing income applicable to common shareholders by the weighted average number of shares of common stock outstanding and common stock equivalents during the respective years. Fully diluted earnings per share are not significantly different from primary earnings per share and, accordingly, are not presented.

Intangibles: Goodwill and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods not exceeding 40 years. The company regularly reviews the individual components of the balances by analyzing the future recoverability of the assets and recognizes, on a current basis, any diminution in value.

Cash Equivalents: Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Business Segment Information: Information concerning business segment and geographic data is in Management's Discussion and Analysis.

2. ACQUISITIONS

On October 7, 1992, the company purchased Wattie's Limited of Auckland, New Zealand from Goodman Fielder Wattie Limited of Sydney, Australia for approximately $300 million. The purchase price is subject to adjustment and includes cash paid to Goodman Fielder Wattie Limited and other direct costs of the acquisition. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to assets and liabilities based on the estimated fair value as of the date of the acquisition. The operating results have been included in the Consolidated Statements of Income from the date of the acquisition forward. Wattie's Limited produces a broad range of grocery products, most of which are marketed in New Zealand and are also exported to Australia and Asia.

The funds to acquire Wattie's were originally obtained through short-term borrowings in New Zealand. The company has refinanced a portion of these borrowings with short-term borrowings in the U.S.

The acquisition resulted in goodwill of approximately $115 million and other intangible assets of approximately $35 million. These items are being amortized over periods not exceeding 40 years.

During 1993, the company also acquired a foodservice distribution company in Italy; Weight Watchers franchises in Chicago, Wisconsin, Minnesota and Kentucky; and assets of a Venezuelan company which produces gelatins and puddings. The results of operations of these companies are included in the Consolidated Statements of Income from the acquisition dates forward.

Pro forma results of the 1993 acquisitions, assuming they had been made at the beginning of each period presented, would not be materially different from the results reported.

On August 23, 1991, the company completed the acquisition of substantially all of the assets of JLFoods, Inc. (JLFoods), of Eugene, Oregon and certain other related assets from John Labatt Ltd. of Canada for $537.5 million. The acquisition has been accounted for under the purchase method and, accordingly, the operating results of JLFoods have been included in the consolidated operating results since the date of acquisition.

The acquisition resulted in goodwill of $320.5 million and other intangible assets of $79.8 million. These items are being amortized over periods not exceeding 40 years.

The following summary, prepared on a pro forma basis, combines the consolidated results of operations as if JLFoods had been acquired as of the beginning of the periods presented, after including the impact of certain adjustments, such as amortization of intangibles, increased interest expense on the acquisition debt, and the related income tax effects.

(Dollars in thousands, except per share amounts)	1992 (Unaudited)	1991 (Unaudited)
Sales	$6,721,511	$7,128,778
Net income	$ 635,595	$ 559,289
Net income per share	$ 2.39	$ 2.10

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the entire periods presented.

During 1992, the company also acquired Continental Delights, Inc., a manufacturer of frozen sandwiches; Escalon Packers, Inc., a specialty processor of branded and foodservice tomato products; and two Weight Watchers franchises. Other smaller acquisitions were made. The results of operations of these companies are included in the Consolidated Statements of Income from the acquisition dates forward. Pro forma results of these other acquisitions, assuming they had been made at the beginning of each year presented, would not be materially different from the results reported.

3. DIVESTITURES

In June 1991, the company sold The Hubinger Company of Keokuk, Iowa to Roquette Freres, a major worldwide producer of corn starches, for cash proceeds, net of fees, of $325.3 million. Hubinger is a producer of corn derivatives, including corn syrup, starch and ethanol. The sale resulted in a pretax gain of $221.5 million. Other divestitures did not have a material effect on operations.

4. RESTRUCTURING CHARGES

In 1993, restructuring charges of $192.3 million were reflected in operating income and were recognized in order to accelerate productivity improvements, streamline operations in line with new trade agreements and reduce the worldwide workforce.

In 1992, restructuring charges of $88.3 million were reflected in operating income to provide for the consolidation of functions, staff reductions, organizational reform and plant modernizations and closures.

5. INCOME TAXES

During Fiscal 1992, the company adopted FAS No. 109, "Accounting for Income Taxes." The statement requires the use of the asset and liability approach for financial accounting and reporting for income taxes. Financial statements for prior years have not been restated and the cumulative effect of the accounting change was not material.

The following table summarizes the provision for U.S. federal and U.S. possessions, state and foreign taxes on income.

(Dollars in thousands)	1993	1992	1991
CURRENT:			
U.S. federal and U.S. possessions	**$119,746**	$197,287	$153,912
State	**28,153**	48,001	29,654
Foreign	**113,202**	178,057	113,158
	261,101	423,345	296,724
DEFERRED:			
U.S. federal and U.S. possessions	**(25,129)**	(6,979)	(9,319)
State	**(581)**	2,508	3,936
Foreign	**(49,553)**	(72,824)	43,673
	(75,263)	(77,295)	38,290
Total tax provision	**$185,838**	$346,050	$335,014

The 1993 tax provision benefited from: an adjustment of deferred taxes for an enacted foreign statutory rate change ($19.8 million); an adjustment to the beginning of the year valuation allowance, due to a change in circumstances, to recognize the realizability of deferred tax assets in future years ($41.8 million); and an increase in deferred tax assets for foreign tax credit carryforwards ($40.0 million). Tax expense resulting from allocating certain tax benefits directly to additional capital totaled $32.3 million in 1993, $41.4 million in 1992, and $44.9 million in 1991.

The components of income before income taxes and cumulative effect of accounting change consist of the following:

(Dollars in thousands)	1993	1992	1991
Domestic	**$359,773**	$643,396	$480,762
Foreign	**356,008**	340,949	422,251
	$715,781	$984,345	$903,013

The differences between the U.S. federal statutory tax rate and the company's consolidated effective tax rate are as follows:

	1993	1992	1991
U.S. federal statutory tax rate	**34.0%**	34.0%	34.0%
Tax on income of foreign subsidiaries	**3.1**	–	1.5
State income taxes (net of federal benefit)	**2.5**	3.4	2.5
Net adjustment to valuation allowance	**(7.7)**	–	–
Enacted future rate changes	**(2.8)**	–	–
Tax credits	**(5.9)**	–	–
Other	**2.8**	(2.2)	(.9)
Effective tax rate	**26.0%**	35.2%	37.1%

The deferred tax (assets) and deferred tax liabilities recorded on the balance sheet as of April 28, 1993 and April 29, 1992 are as follows:

(Dollars in thousands)	1993	1992
Depreciation/ amortization	**$ 274,277**	$ 234,273
Benefit plans	**52,582**	61,267
Other	**111,234**	107,337
	438,093	402,877
Asset revaluations	**(156,334)**	(189,924)
Provision for estimated expenses	**(86,474)**	(37,793)
Operating loss carryforwards	**(33,625)**	(37,415)
Benefit plans	**(86,514)**	(13,545)
Tax credit carryforwards	**(39,958)**	–
Other	**(137,877)**	(112,160)
	(540,782)	(390,837)
Valuation allowance	**85,071**	139,976
Net deferred tax (assets)/liabilities	**$ (17,618)**	$ 152,016

Net operating loss carryforwards total $77.3 million in 1993. Of that amount, $39.6 million expires between 1994 and 2000; the other $37.7 million does not expire. Foreign tax credit carryforwards total $40.0 million and expire through 1998.

Deferred taxes for 1991 resulted principally from depreciation, amortization of certain intangibles and benefit plans.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1989.

Undistributed earnings of foreign subsidiaries considered to be reinvested permanently amounted to $957.9 million at April 28, 1993.

The net change in the valuation allowance for deferred tax assets was a decrease of $54.9 million.

In June 1991, Heinz's Italian affiliate, PLADA, elected to revalue for tax purposes certain assets as a result of legislation enacted by the Italian Parliament. The revaluation required payment of $77 million over two years for approximately $180 million in future tax benefits. One installment payment was made in 1992 for $44.7 million. The remaining payment was made in the second quarter of 1993 for $32.3 million.

6. DEBT

Amounts outstanding at year-end:

Short-Term (Dollars in thousands)	1993	1992
Commercial paper	**$1,294,705**	$1,236,383
Bank and other borrowings	**275,757**	371,942
	$1,570,462	$1,608,325

Long-Term (Dollars in thousands)	Range of Interest	Maturity (Fiscal Year)	1993	1992
UNITED STATES DOLLARS:				
Senior unsecured notes	5.5–6.875%	1998–2003	**$ 749,090**	$ –
Eurodollar bonds	7.5	1997	**75,000**	75,000
Revenue bonds	5.625–11.75	1994–2016	**23,968**	34,584
Promissory notes	6–12.0	1994–2005	**36,745**	31,085
Other	8.1	1994–1998	**5,762**	9,231
			890,565	149,900
FOREIGN CURRENCIES (U.S. DOLLAR EQUIVALENTS):				
Promissory notes:				
Pounds sterling	8.85%	1994–2000	**85,747**	–
Italian lire	8.1–11.9	1994–2003	**22,158**	20,153
New Zealand dollars	Variable	1993	**–**	94,633
Spanish pesetas	8.3–13.55	1994–1999	**9,060**	14,798
Other	5.6–18.4	1994–1999	**35,744**	14,674
			152,709	144,258
Total long-term debt			**1,043,274**	294,158
Less portion due within one year			**33,893**	115,770
			$1,009,381	$178,388

The amount of long-term debt that matures in each of the four years succeeding 1994 is: $49.9 million in 1995, $26.7 million in 1996, $94.3 million in 1997, and $270.1 million in 1998.

The domestic commercial paper is supported by short-term line of credit agreements totaling $1.18 billion, which expire or are cancellable nine to twelve months after year-end unless otherwise extended. The domestic commercial paper had a weighted average interest rate during the year of 3.4% and at year-end of 3.2%.

The company also maintains a commercial paper program in Canada. Outstanding Canadian dollar commercial paper, which is also classified as short-term debt, was $135.2 million as of April 28, 1993. The weighted average interest rate for Canadian dollar commercial paper during 1993 was 6.4% and at year-end was 5.2%. In addition, the company had $710.9 million of other foreign and other domestic lines of credit available at year-end, principally for overdraft protection.

During the year the company issued $750 million of debt securities in three separate issuances under the company's "shelf registration" filed with the Securities and Exchange Commission. The first issuance was on September 21, 1992 for $250 million aggregate principal amount of 5½% Notes due during Fiscal 1998. The second issuance was on October 29, 1992 for $300 million aggregate principal amount of 6¾% Notes due during Fiscal 2000. The final issuance was on January 27, 1993 for $200 million aggregate principal amount of 6⅞% Notes due during Fiscal 2003. The company used the net proceeds from these offerings to repay outstanding commercial paper.

On December 22, 1992, the company's United Kingdom affiliate privately placed with various banks £125 million ($197.0 million) aggregate principal of 8.85% Notes due during 2013. In April 1993, an affiliated company paid £70.6 million ($111.3 million) for an interest in the notes. The notes are shown in the balance sheet as a net amount outstanding of £54.4 million ($85.7 million) which will be fully amortized in seven years. The effective interest rate at April 28, 1993 was 8.3%. The proceeds from the debt have been used to refinance existing debt.

On April 23, 1993, the company redeemed its outstanding $2.8 million of 7¼% debentures due during 1998 at par plus accrued interest to that date.

7. SHAREHOLDERS' EQUITY

Information related to stock issued and in treasury, and to additional capital follows:

	Cumulative Preferred Stock	Common Stock				
	Third, $1.70 First Series $10 Par	Issued		In Treasury		Additional Capital
(In thousands)	Amount	Amount	Shares	Amount	Shares	Amount
Balance May 2, 1990	$599	$71,850	287,400	$ 777,548	33,882	$152,128
Reacquired	–	–	–	67,546	2,079	–
Conversion of preferred into common stock	(61)	–	–	(1,116)	(55)	(1,055)
Stock options exercised, net of shares tendered for payment	–	–	–	(149,406)	(7,838)	(3,158)
Other, net	–	–	1	(2,025)	(102)	1,611
Balance May 1, 1991	$538	$71,850	287,401	$ 692,547	27,966	$149,526
Reacquired	–	–	–	398,051	10,334	–
Conversion of preferred into common stock	(58)	–	–	(1,198)	(52)	(1,139)
Stock options exercised, net of shares tendered for payment	–	–	–	(89,867)	(4,866)	15,243
Other, net	–	–	–	312	(38)	1,482
Balance April 29, 1992	$480	$71,850	287,401	$ 999,845	33,344	$165,112
Reacquired	–	–	–	148,511	3,885	–
Conversion of preferred into common stock	(42)	–	–	(946)	(38)	(904)
Stock options exercised, net of shares tendered for payment	–	–	–	(99,078)	(4,093)	5,112
Other, net	–	–	–	(1,427)	(62)	988
Balance April 28, 1993	$438	$71,850	287,401	$1,046,905	33,036	$170,308
Authorized Shares—April 28, 1993	44		600,000			

Capital Stock: The preferred stock outstanding is convertible at a rate of one share of preferred stock into 9.0 shares of common stock. The company can redeem the stock at $28.50 per share.

On April 28, 1993, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Employee Stock Ownership Plan (ESOP): The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contributions to the H.J. Heinz Company Employees Retirement and Savings Plan, a 401(k) plan for salaried employees. Matching contributions to the 401(k) plan are based on a percentage of the participant's contributions, subject to certain limitations.

To finance the plan, the ESOP borrowed $50.0 million directly from the company in 1990. The loan is in the form of a 15-year variable-rate interest-bearing note (4.1% average, 6.1% average and 9.4% average for 1993, 1992 and 1991, respectively) and is included in the company's Consolidated Balance Sheets as unearned compensation. The proceeds of the note were used to purchase 1,577,908 shares of treasury stock from the company at approximately $31.70 per share.

The stock held by the ESOP is released for allocation to the participants' accounts over the term of the loan as company contributions to the ESOP are made. The company contributions are reported as compensation and interest expense. Compensation expense related to the ESOP for 1993, 1992 and 1991 was $2.7 million, $2.7 million and $3.1 million, respectively. Interest expense was $1.7 million, $2.1 million and $4.4 million for 1993, 1992 and 1991, respectively. The company's contributions to the ESOP and the dividends on the company stock held by the ESOP are used to repay loan interest and principal.

The dividends on the company stock held by the ESOP in 1993 were $1.7 million and $1.4 million in both 1992 and 1991.

Cumulative Translation Adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of financial statements of foreign subsidiaries into U.S. dollars. The reduction in shareholders' equity related to the translation component increased $107.6 million in 1993, decreased $13.9 million in 1992 and increased $25.8 million in 1991.

8. SUPPLEMENTAL CASH FLOWS INFORMATION

(Dollars in thousands)	1993	1992	1991
CASH PAID DURING THE YEAR FOR:			
Interest	**$134,179**	$139,784	$153,780
Income taxes	**347,701**	339,425	347,738
DETAILS OF ACQUISITIONS:			
Fair value of assets acquired	**$478,240**	$689,246	$200,098
Liabilities assumed*	**106,893**	114,836	89,402
Cash paid	**371,347**	574,410	110,696
Less cash acquired	**1,158**	274	1,664
Net cash paid for acquisitions	**$370,189**	$574,136	$109,032

*Includes notes to seller.

9. EMPLOYEES' STOCK OPTION PLANS AND MANAGEMENT INCENTIVE PLANS

Under the company's stock option plans, officers and other key employees may be granted options, each of which allows for the purchase of shares of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant.

The shares authorized but not granted under the company's stock option plans were 2,711,590 at April 28, 1993 and 5,145,090 at April 29, 1992.

Data regarding the company's stock option plans follows:

	Shares	Range of Option Price
Shares under option May 2, 1990	30,510,144	$ 3⅜–32⅝
Options granted	4,475,500	31⅞–39
Options exercised	(8,301,988)	3⅜–28⅛
Options surrendered	(91,000)	11–34½
Shares under option May 1, 1991	26,592,656	$ 4¼–39
Options granted	1,149,000	36–40½
Options exercised	(5,839,939)	4¼–34½
Options surrendered	(101,500)	20–37¾
Shares under option April 29, 1992	**21,800,217**	**$ 6⅜–40½**
Options granted	**2,482,500**	**35⅞–43¼**
Options exercised	**(4,109,275)**	**6⅜–37¾**
Options surrendered	**(49,000)**	**22–38⅞**
Shares under option April 28, 1993	**20,124,442**	**$ 8⅞–43¼**

Options exercisable at:	
April 29, 1992	9,120,117
April 28, 1993	**7,198,040**

Common stock reserved for options totaled 22,836,032 shares as of April 28, 1993 and 26,945,307 shares as of April 29, 1992.

The company's management incentive plans cover certain officers and other key employees. Participants may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Management incentive plans expense was $16.9 million in 1993, $17.9 million in 1992 and $24.9 million in 1991.

10. RETIREMENT PLANS

The company maintains retirement plans for the majority of its employees. Benefits are based on years of service and compensation or stated amounts for each year of service. Plan assets are primarily invested in equities and fixed income securities. The company's funding policy for the domestic plans is to contribute annually not less than the ERISA minimum funding standards nor more than the maximum amount which can be deducted for federal income tax purposes. Generally, foreign plans are funded in amounts sufficient to comply with local regulations and ensure adequate funds to pay benefits to retirees as they become due.

Net pension costs consisted of the following:

(Dollars in thousands)	1993	1992	1991
Benefits earned during the year	**$ 20,384**	$ 22,801	$ 24,401
Interest cost on projected benefit obligation	**65,612**	66,668	75,143
Actual return on plan assets	**(98,358)**	(105,940)	(121,608)
Net amortization and deferral	**21,292**	23,235	26,636
Net pension costs	**$ 8,930**	$ 6,764	$ 4,572

The following table sets forth the combined funded status of the company's principal plans at April 28, 1993 and April 29, 1992.

(Dollars in thousands)	1993	1992
Actuarial present value of:		
Accumulated benefit obligation, primarily vested	**$748,089**	$705,386
Additional obligation for projected compensation increases	**69,992**	80,363
Projected benefit obligation	**818,081**	785,749
Plan assets, at fair value	**908,745**	892,987
Plan assets in excess of projected benefit obligation	**90,664**	107,238
Unamortized prior service cost	**63,427**	66,355
Unamortized actuarial losses, net	**56,819**	40,772
Unamortized net assets at date of adoption	**(44,688)**	(58,062)
Prepaid pension costs	**$166,222**	$156,303

The weighted average rates used for the years ended April 28, 1993, April 29, 1992 and May 1, 1991 in determining the net pension costs and projected benefit obligations were as follows:

	1993	1992	1991
Expected rate of return on plan assets	**10.1%**	10.1%	10.3%
Discount rate	**8.6%**	8.8%	9.3%
Compensation increase rate	**6.2%**	6.7%	6.3%

Assumptions for foreign plans are developed on a basis consistent with those for U.S. plans, adjusted for prevailing economic conditions.

In April 1992, the Board of Directors amended the domestic salaried defined benefit pension plan to provide that no benefits would accrue under this plan on or after January 1, 1993. At the same time, the Board adopted, effective January 1, 1993, a defined contribution plan covering substantially all domestic salaried employees. The Board's actions resulted in an after-tax curtailment gain of $23.6 million, which was recorded in 1992. No plan assets were withdrawn from the pension plan as a result of this curtailment.

A company contribution account was established for substantially all domestic salaried employees as part of the defined contribution plan. This account consists solely of company contributions that are a percentage of the participant's pay based on age, with the contribution rate increasing with age. In 1993, the company contribution to the defined contribution plan amounted to $3.8 million.

In 1991, an overseas affiliate settled certain pension liabilities through the purchase of irrevocable non-participating annuities with an insurance company. An after-tax gain of $29.7 million was recorded on the settlement.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the company and certain of its subsidiaries provide health care and life insurance benefits for retired employees and their eligible dependents. Substantially all of the company's U.S. employees (hired before January 1, 1992) and Canadian employees may become eligible for such benefits. In general, postretirement medical coverage is provided for these non-union and salaried employees with at least 10 years of service rendered after the age of 45 and union employees who retire with an immediate pension benefit. The company currently does not fund these benefit arrangements and may modify plan provisions or terminate plans at its discretion.

In 1993, the company adopted Statement of Financial Accounting Standards (FAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." FAS No. 106 requires that the accrual method of accounting for postretirement benefits other than pensions be used and the accrual period be based on the period that the employees render the services necessary to earn their postretirement benefits. Effective April 30, 1992, the company elected to recognize immediately the accumulated postretirement benefit obligation for active and retired employees, resulting in an after-tax cumulative charge of $133.6 million (net of income tax benefit of $85.4 million), or $0.51 per share. In addition, the adoption of FAS No. 106 has increased the company's pretax postretirement benefit expense by $16.3 million ($0.04 per share) in 1993. These charges have no effect on consolidated cash flows.

Net postretirement costs consist of the following in 1993:

(Dollars in thousands)	
Postretirement benefits earned during the year	**$ 8,462**
Interest cost on accumulated postretirement benefit obligation	**16,457**
Net amortization and deferral	**(885)**
Net postretirement benefit costs	**$24,034**

The following table sets forth the combined status of the company's postretirement benefit plans at April 28, 1993.

(Dollars in thousands)	
Accumulated postretirement benefit obligation:	
Retirees and spouses	$108,907
Employees currently eligible to retire	40,289
Employees not yet eligible to retire	65,645
Total accumulated postretirement benefit obligation	214,841
Unamortized prior service cost	15,434
Accrued postretirement benefit obligation	230,275
Current portion, included in other accrued liabilities	8,591
Non-pension postretirement benefits	$221,684

The weighted average discount rate used in the calculation of the accumulated postretirement benefit obligation as of April 28, 1993 and the net postretirement benefit cost was 8.1%. The assumed annual composite rate of increase in the per capita cost of company-provided health care benefits begins at 13.1% for 1994, gradually decreases to 5.5% by 2010, and remains at that level thereafter. A one percent increase in these health care cost trend rates would cause the accumulated postretirement obligation to increase by $26.6 million and the aggregate of the service and interest components of 1993 net postretirement benefit costs to increase by $3.8 million.

Prior to 1993, the cost of retiree health care and life insurance benefits was expensed as incurred. These costs totaled $6.8 million in 1992 and $5.3 million in 1991.

In November 1992, the FASB issued FAS No. 112, "Employers' Accounting for Postemployment Benefits." This statement requires recognition of benefits provided by an employer to former or inactive employees after employment but before retirement. The statement must be implemented no later than Fiscal 1995. Currently, the company is studying the standard. However, neither the period in which the new standard will be adopted nor the impact, if any, of the adoption have been determined.

12. COMMITMENTS AND CONTINGENCIES

Legal Matters: Certain claims have been filed against the company or its subsidiaries and have not been finally adjudicated. These claims, when finally concluded and determined, in the opinion of management, based upon the information that it presently possesses, will not have a material adverse effect on the company's consolidated financial position.

Financial Instruments: The company's financial instruments include cash and cash equivalents, short- and long-term investments, short- and long-term debt, interest rate swap agreements, currency exchange agreements and guarantees. The carrying values of all instruments approximated their fair values. The fair values of the instruments were based upon quoted market prices of the same or similar instruments or on a discounted basis using the rates available to the company for instruments of the same remaining maturities.

The counterparties to the currency exchange and swap agreements consist of large major international financial institutions. The company continually monitors its positions and the credit ratings of its counterparties and, by policy, limits the amount of credit exposure to any one party. While the company may be exposed to potential losses due to credit risk in the event of non-performance by these counterparties, it does not anticipate losses.

Lease Commitments: Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $89.7 million in 1993, $78.4 million in 1992 and $70.1 million in 1991. Future lease payments for non-cancellable operating leases as of April 28, 1993 totaled $222.7 million (1994–$51.3 million, 1995–$40.0 million, 1996–$33.3 million, 1997–$24.4 million, 1998–$17.9 million and thereafter–$55.8 million).

13. QUARTERLY RESULTS *(Unaudited)*

Summarized quarterly financial information follows:

(Dollars in thousands, except per share data)	1993 First	Second	Third	Fourth	Total
Sales	**$1,564,441**	**$1,738,559**	**$1,766,712**	**$2,033,662**	**$7,103,374**
Gross profit	**601,502**	**652,295**	**701,181**	**617,833**	**2,572,811**
Income before cumulative effect of accounting change	**143,790**	**154,166**	**162,312**	**69,675**	**529,943**
Cumulative effect of FAS No. 106 adoption	**(133,630)**	–	–	–	**(133,630)**
Net income	**10,160**	**154,166**	**162,312**	**69,675**	**396,313**
PER SHARE DATA:					
Income before cumulative effect of accounting change	**$0.55**	**$0.60**	**$0.62**	**$0.27**	**$2.04**
Cumulative effect of FAS No. 106 adoption	**(0.51)**	–	–	–	**(0.51)**
Net income	**0.04**	**0.60**	**0.62**	**0.27**	**1.53**
Dividends	**0.27**	**0.30**	**0.30**	**0.30**	**1.17**

(Dollars in thousands, except per share data)	1992 First	Second	Third	Fourth	Total
Sales	$1,500,251	$1,592,312	$1,622,358	$1,866,946	$6,581,867
Gross profit	563,712	613,552	604,936	696,851	2,479,051
Net income	254,426	122,821	115,337	145,711	638,295
PER SHARE DATA:					
Net income	$0.95	$0.46	$0.43	$0.56	$2.40
Dividends	0.24	0.27	0.27	0.27	1.05

First-quarter 1993 results have been restated to include the cumulative effect of adopting FAS No. 106. (See Note 11 to the Consolidated Financial Statements.) The fourth quarter also includes a $16.3 million pretax charge ($0.04 per share), which represents the current-year effect of adopting FAS No. 106.

Also in the fourth quarter of 1993, pretax restructuring charges of $181.9 million (or $0.43 per share) were recorded. (See Note 4 to the Consolidated Financial Statements.) Fourth-quarter earnings benefited from a lower effective tax rate resulting from tax benefits overseas and the recognition of foreign tax credits associated with the company's overseas dividend strategy. (See Note 5 to the Consolidated Financial Statements.)

First-quarter 1992 results include a pretax gain of $221.5 million from the sale of The Hubinger Company ($0.53 per share). (See Note 3 to the Consolidated Financial Statements.)

Fourth-quarter 1992 results include a pretax curtailment gain of $38.8 million ($0.09 per share). (See Note 10 to the Consolidated Financial Statements.) Fourth-quarter 1992 results also include $54.2 million in pretax restructuring charges ($0.12 per share) for the consolidation of functions, staff reductions and plant modernizations. The 1992 effect of the change in the method of accounting for income taxes, recorded in the fourth quarter, resulted in a $9.6 million ($0.04 per share) reduction in the tax provision. (See Note 5 to the Consolidated Financial Statements.)

Responsibility for Financial Statements

Management of H.J. Heinz Company is responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately, and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

Independent Accountants' Report

The Shareholders
H.J. Heinz Company:

We have audited the accompanying consolidated balance sheets of H.J. Heinz Company and subsidiaries as of April 28, 1993 and April 29, 1992, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended April 28, 1993. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of H.J. Heinz Company and subsidiaries as of April 28, 1993 and April 29, 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 28, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 11 to the Consolidated Financial Statements, the company adopted the provisions of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" in Fiscal 1993.

Coopers & Lybrand

600 Grant Street
Pittsburgh, Pennsylvania
June 14, 1993

DIRECTORS*

Anthony J.F. O'Reilly
Chairman, President and
Chief Executive Officer.
Director since 1971. (1,3,5,6)

Joseph J. Bogdanovich
Vice Chairman.
Director since 1963. (1,3,6)

Nicholas F. Brady
Chairman and President,
Darby Advisors, Inc.
Director from 1987 through
September 1988.
Reelected April 1993.

J. Wray Connolly
Senior Vice President.
Director since 1985. (1,5)

Richard M. Cyert
President Emeritus and Professor
of Economics and Management,
Carnegie Mellon University,
Pittsburgh, Pennsylvania.
Director since 1984. (2,3,4,6)

R. Derek Finlay
Senior Vice President.
Director since 1981. (1)†

Samuel C. Johnson
Chairman, S. C. Johnson &
Son, Inc., Racine, Wisconsin.
Director since 1988. (2,4)

Donald R. Keough
Advisor to the Board,
The Coca-Cola Company,
Atlanta, Georgia and Chairman
of the Board, Allen &
Company Incorporated,
New York, New York.
Director since 1990. (2,3)

Albert Lippert
Consultant.
Director since 1978. (2,3,6)

Lawrence J. McCabe
Senior Vice President–
General Counsel.
Director since 1991. (1)

Luigi Ribolla
Senior Vice President–Europe.
Director since 1992. (1)

Herman J. Schmidt
Director, Various Corporations.
Director since 1977. (2,3,4,6)

David W. Sculley
Senior Vice President.
Director since 1989. (1)

Eleanor B. Sheldon
Director, Various Corporations.
Director since 1979. (2,4,6)

William P. Snyder III
President, The Wilpen Group,
Inc., Pittsburgh, Pennsylvania.
Director since 1961. (2,3,4)

S. Donald Wiley
Vice Chairman, H.J. Heinz
Company Foundation.
Director from 1972
through September 1990.
Reelected 1991. (6)

David R. Williams
Senior Vice President–
Chief Financial Officer.
Director since 1992. (1,5)

COMMITTEES OF THE BOARD

(1) Executive Committee
(2) Management Development
and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee

*As of April 28, 1993
†Retired May 1993

OFFICERS*

Anthony J.F. O'Reilly
Chairman, President and
Chief Executive Officer

Joseph J. Bogdanovich
Vice Chairman

J. Wray Connolly
Senior Vice President

R. Derek Finlay
Senior Vice President–
Corporate Development†

George C. Greer
Vice President–Organization
Development and Administration

Thomas A. MacMurray
Vice President–
Technical Development

Lawrence J. McCabe
Senior Vice President–
General Counsel

Paul F. Renne
Vice President–Treasurer

Luigi Ribolla
Senior Vice President–Europe

David W. Sculley
Senior Vice President

D. Edward I. Smyth
Vice President–
Corporate Affairs

Benjamin E. Thomas, Jr.
Corporate Secretary and
Assistant General Counsel

David R. Williams
Senior Vice President–
Chief Financial Officer

(Dollars in thousands except per share data)	1993	1992	1991	1990
SUMMARY OF OPERATIONS:				
Sales	**$7,103,374**	$6,581,867	$6,647,118	$6,085,687
Cost of products sold	**4,530,563**	4,102,816	4,063,423	3,726,613
Interest expense	**146,491**	134,948	137,592	108,542
Provision for income taxes	**185,838**	346,050	335,014	306,979
Income before cumulative effect of accounting change	**529,943**	638,295	567,999	504,451
Cumulative effect of FAS No. 106 adoption	**(133,630)**	–	–	–
Net income	**396,313**	638,295	567,999	504,451
Income per common share before cumulative effect of accounting change	**2.04**	2.40	2.13	1.90
Cumulative effect of FAS No. 106 adoption	**(.51)**	–	–	–
Net income per common share	**1.53**	2.40	2.13	1.90
OTHER RELATED DATA:				
Dividends paid:				
Common	**297,009**	270,512	239,212	207,387
per share	**1.17**	1.05	.93	.81
Preferred	**78**	86	91	113
Average shares for earnings per share	**259,788,461**	266,339,122	266,628,617	266,078,096
Number of employees	**37,700**	35,500	34,100	37,300
Capital expenditures	**430,713**	331,143	345,334	355,317
Depreciation and amortization	**234,935**	211,786	196,138	168,523
Total assets	**6,821,321**	5,931,901	4,935,382	4,487,451
Total debt	**2,613,736**	1,902,483	1,226,694	1,256,607
Shareholders' equity	**2,320,996**	2,367,398	2,274,863	1,886,899
Pretax return on average invested capital (%)	**18.7**	28.8	31.3	31.3
Return on average shareholders' equity before cumulative effect of accounting change (%)	**22.0**	27.5	27.3	27.5
Book value per common share	**9.12**	9.31	8.76	7.44
Price range of common stock:				
High	**45½**	48⅝	41⅛	35⅞
Low	**35¼**	35⅛	29⅜	24⅝

The 1993 results include a pretax restructuring charge of $192.3 million. The 1992 results include a pretax gain of $221.5 million for the sale of The Hubinger Company, a pretax restructuring charge of $88.3 million and a pretax pension curtailment gain of $38.8 million.

1989	1988	1987	1986	1985	1984	1983
$5,800,877	$5,244,230	$4,639,486	$4,366,177	$4,047,945	$3,953,761	$3,738,445
3,550,249	3,212,580	2,858,096	2,697,264	2,532,776	2,489,513	2,400,973
77,694	73,995	50,978	57,956	52,821	46,417	50,354
284,661	236,559	226,070	197,594	179,325	164,725	136,122
440,230	386,014	338,506	301,734	265,978	237,530	214,250
–	–	–	–	–	–	–
440,230	386,014	338,506	301,734	265,978	237,530	214,250
1.67	1.45	1.24	1.10	.96	.85	.75
–	–	–	–	–	–	–
1.67	1.45	1.24	1.10	.96	.85	.75
178,340	154,418	132,278	117,351	105,489	94,210	76,352
.69½	.60½	.50¼	.43¾	.38¾	.33¾	.27
134	155	177	227	291	387	805
263,568,068	265,411,890	273,669,332	274,631,402	275,357,760	279,325,108	284,101,536
36,200	39,000	37,500	36,400	37,100	38,100	37,200
323,325	238,265	184,730	206,331	158,830	136,971	111,385
148,104	133,348	109,868	91,400	84,721	75,925	69,738
4,001,807	3,605,083	3,364,197	2,837,364	2,473,774	2,342,970	2,178,693
962,321	780,330	876,620	540,588	463,413	448,676	384,049
1,777,238	1,593,856	1,392,949	1,360,007	1,230,454	1,120,659	1,139,610
31.4	30.0	29.5	31.0	30.5	29.0	26.6
26.1	25.8	24.6	23.3	22.6	21.0	19.8
6.91	6.24	5.40	5.08	4.49	4.09	3.95
25⅝	25⅞	25¼	22	12¼	9⅞	7⅝
19¼	16¾	19⅛	11⅜	8⅛	6¾	4⅞

WORLD HEADQUARTERS
600 Grant Street
Pittsburgh, Pennsylvania

THE AMERICAS

Heinz U.S.A. Established 1869. Pittsburgh, Pennsylvania. *William C. Springer,* President, Heinz North America. *Factories:* Dallas, Texas/ Escalon, California/Eugene, Oregon/Fremont, Ohio/Holland, Michigan/King of Prussia, Pennsylvania/La Mirada, California/Leominster, Massachusetts/Mason, Ohio/Muscatine, Iowa/ Pittsburgh, Pennsylvania/Stockton, California/ Tracy, California

Ore-Ida Foods, Inc. Acquired 1965. Boise, Idaho. *Richard H. Wamhoff,* President and Chief Executive Officer. *Factories:* Bloomsburg, Pennsylvania/Burley, Idaho/Clarksville, Arkansas/ Denmark, Wisconsin/Fort Atkinson, Wisconsin/ Fort Myers, Florida/Grand Island, Nebraska/ Hayward, California/Ontario, Oregon/Plover, Wisconsin/Rice Lake, Wisconsin/Torrance, California/West Chester, Pennsylvania

Star-Kist Foods, Inc. Acquired 1963. Newport, Kentucky. *Joseph J. Bogdanovich,* Chairman. *William R. Johnson,* President and Chief Executive Officer. *Factories and Collection Stations:* Abidjan, Ivory Coast/Biloxi, Mississippi/ Bloomsburg, Pennsylvania/El Paso, Texas/ Guayaquil, Ecuador/LePort, Reunion Island/ Pascagoula, Mississippi/Perham, Minnesota/Port Louis, Mauritius/Tema, Ghana/Terminal Island, California/Weirton, West Virginia. *Liaison Offices:* Kaohsiung, Taiwan/Tokyo, Japan

☐ **Star-Kist Caribe, Inc.** Acquired 1963. Mayaguez, Puerto Rico. *Lawrence A. Krogsdale,* General Manager. *Factory:* Mayaguez

☐ **Star-Kist Samoa, Inc.** Acquired 1963. Pago Pago, American Samoa. *Maurice W. Callaghan,* General Manager. *Factory:* Pago Pago

Weight Watchers International, Inc. Acquired 1978. Jericho, New York. *Lelio G. Parducci,* President and Chief Executive Officer. *Operational Headquarters:* Düsseldorf, Germany/ Geneva, Switzerland/Helsingborg, Sweden/ Helsinki, Finland/Maidenhead, United Kingdom/ Paris, France/Vienna, Austria

☐ **Cardio-Fitness Corporation.** Acquired 1985. New York, New York. *William M. Horne,* President

☐ **The Fitness Institute.** Acquired 1988. Willowdale, Ontario, Canada. *John A. Wildman,* President and Chief Operating Officer

Weight Watchers Food Company. Established 1991. Pittsburgh, Pennsylvania. *Brian Ruder,* President and Chief Executive Officer. *Factories:* Massillon, Ohio/Pocatello, Idaho. *Research Centers:* Glastonbury, Connecticut/ Pittsburgh, Pennsylvania

Crestar Food Products, Inc. Acquired 1991. Brentwood, Tennessee. *Thane A. Pressman,* President and Chief Executive Officer. *Factories:* Irving, Texas/Mississauga, Ontario/Richfield, Ohio/Richmond, British Columbia/Spokane, Washington/Washington Courthouse, Ohio

H.J. Heinz Company of Canada Ltd. Established 1909. North York, Ontario, Canada. *John Crawshaw,* President and Chief Executive Officer. *Factory:* Leamington, Ontario

☐ **Omstead Foods Limited.** Acquired 1991. Wheatley, Ontario, Canada. *John Crawshaw,* President and Chief Executive Officer. *Factory:* Wheatley, Ontario

☐ **Shady Maple Farm Ltd.** Acquired 1989. LaGuadeloupe, Quebec, Canada. *Gary F. Coppola,* President. *Factory:* LaGuadeloupe, Quebec

Heinz Bakery Products. Established 1992. Mississauga, Ontario, Canada. *Paul W. Sneddon,* President and Chief Executive Officer. *Factories:* Bakersfield, California/Blackwood, New Jersey/ Bridgeport, New Jersey/Buffalo, New York/ Edmonton, Alberta/Lenexa, Kansas/Long Island, New York/Mississauga, Ontario/St. Hubert, Quebec/Vinita, Oklahoma

Heinz Service Company. Established 1993. Pittsburgh, Pennsylvania. *Jack L. Burley,* President

Alimentos Heinz C.A. Established 1959. Caracas, Venezuela. *John M. Werner,* President and Chief Executive Officer. *Factory:* San Joaquín

EUROPE AND AFRICA

H.J. Heinz Company, Limited. Established 1905. Hayes, Middlesex, England. *John F. Hinch,* Chairman. *Andrew L. Barrett,* Managing Director. *Factories and Farms:* Camberley/Chorley/Deeside, Wales/Harlesden/Horley/Kitt Green/Poling/Woking

Heinz Italia S.p.A. Acquired 1963. Milan, Italy. *Luigi Ribolla,* President

- **PLADA S.p.A. (Plasmon Dietetici Alimentari S.p.A.).** Acquired 1963. Milan, Italy. *Luigi Ribolla,* President. *Factories:* Latina/Milan/Ozzano Taro
- **Sperlari S.p.A.** Acquired 1981. Cremona, Italy. *Lino Ghirardato,* President. *Factories:* Cremona/Gordona
- **Heinz Food Service S.r.l.** Acquired 1992. Commessaggio, Italy. *Lino Ghirardato,* President

H.J. Heinz Central Europe S.A. Established 1984. Brussels, Belgium. *Jean-Claude Jamar,* Managing Director

- **H.J. Heinz B.V.** Acquired 1958. Elst, Gelderland, Netherlands. *Jean-Claude Jamar,* Director. *Factory:* Elst
- **H.J. Heinz Branch Belgium.** Established 1984. Brussels, Belgium. *Jacques Meert,* General Manager–Marketing & Sales
- **H.J. Heinz GmbH.** Established 1970. Cologne, Germany. *Jean-Claude Jamar* and *Jan Eenhoorn,* Members of Management Group
- **H.J. Heinz S.A.R.L.** Established 1979. Paris, France. *Jean-Claude Jamar,* Legal Representative

Heinz Iberica, S.A. Established 1987. Madrid, Spain. *Jose A. Arnaldo,* Managing Director. *Factories:* Alfaro/Bermeo/Ejea de los Caballeros

IDAL (Industrias de Alimentação, Lda.). Acquired 1965. Lisbon, Portugal. *Leonardo A. P. Caeiro,* Managing Director. *Factory:* Benavente

Star-Kist Europe, Inc. Established 1988. Douarnenez, France. *Nicholas J. Harding,* Managing Director

- **Ets. Paul Paulet.** Acquired 1981. Douarnenez, France. *Nicholas J. Harding,* President. *Factories:* Douarnenez/Peniche, Portugal

Copais Canning Industry S.A. Acquired 1990. Athens, Greece. *Emmanuel Kaldellis,* Chairman, President and Chief Executive Officer. *Ilena Frangista,* Delegated Director. *Factories:* Aliartos/Orchomenos

Magyar Foods Limited. Established 1992. London, England. *Michael J. B. Smither,* Managing Director. *Factories:* Kecskemeti, Hungary

H.J. Heinz Company (Ireland) Limited. Incorporated 1966. Dublin, Ireland. *John P.H. O'Reilly,* Managing Director

Custom Foods Limited. Established 1992. Dundalk, Ireland. *John F. Hinch,* Chairman. *Factory:* Dundalk

H.J. Heinz (Botswana) (Proprietary) Ltd. Formed 1988. Gaborone, Botswana. *John W. Rudd,* Managing Director

- **Kgalagadi Soap Industries (Pty) Ltd.** Acquired 1988. Gaborone, Botswana. *John W. Rudd,* Managing Director. *Factory:* Gaborone
- **Refined Oil Products.** Formed 1987. Gaborone, Botswana. *John W. Rudd,* Managing Director. *Factory:* Gaborone

Olivine Industries (Private) Limited. Acquired 1982. Harare, Zimbabwe. *Rory W. Beattie,* Chairman and Chief Executive Officer. *Factory:* Harare

- **Chegutu Canners (Pvt) Ltd.** Established 1992. Chegutu, Zimbabwe. *Rory W. Beattie,* Managing Director. *Factory:* Chegutu

Cairo Foods Industries SAE. Established 1992. Cairo, Egypt. *Moataz Al Alfi,* Chairman and Chief Executive Officer. *Factory:* Cairo

ASIA/PACIFIC RIM

H.J. Heinz Australia Ltd. Established 1935. Doveton, Victoria, Australia. *Terence Ward,* Managing Director and Chief Executive Officer. *Factories:* Dandenong/Eden/Girgarre/Noble Park

Wattie's Limited. Acquired 1992. Auckland, New Zealand. *David Irving,* President and Chief Executive Officer. *Factories:* Auckland/Christchurch/Gisborne/Hastings/New Plymouth

Heinz Japan Ltd. Established 1961. Tokyo, Japan. *Masahira Ogawa,* President. *Factory:* Utsunomiya

Heinz-UFE Ltd. Established 1984. Guangzhou, People's Republic of China. *Wah-Hui Chu,* President. *Factory:* Guangzhou

Seoul-Heinz Ltd. Established 1986. Seoul, South Korea. *John K. Johnson,* President and Representative Director. *Factory:* Inchon

Heinz Win Chance Ltd. Established 1987. Bangkok, Thailand. *Ming-Der Guan,* President. *Factory:* Bangplee

Heinz: A Definition
H.J. Heinz Company is a worldwide provider of processed food products and nutritional services. Heinz's varieties now number more than 3,000 and its business extends to loyal consumers in more than 200 countries and territories. The company's two strongest global brands are Heinz and Weight Watchers, which in the United States are joined by powerful names, such as Ore-Ida, StarKist, 9-Lives and many others. Heinz provides employment for approximately 37,700 people full-time, plus thousands of others on a part-time basis and during seasonal peaks. A Total Quality Management (TQM) process enhances Heinz's culture and makes it an even more dynamic company.

Annual Meeting
The annual meeting of the company's shareholders will be held at 2 p.m. on Wednesday, September 8, 1993 in Pittsburgh at Heinz Hall for the Performing Arts.

Form 10-K
The company submits an annual report to the Securities and Exchange Commission on Form 10-K. Shareholders may obtain copies of this Form 10-K without charge by writing to: Corporate Affairs Department, H.J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230-0057.

Investor Information
Securities analysts and investors seeking additional information about the company should contact John M. Mazur, assistant treasurer, at the World Headquarters address or should call him at (412) 456-6014.

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Corporate Data
Transfer Agent, Registrar and Disbursing Agent (for inquiries and changes in shareholder accounts):
Mellon Bank, N.A., P.O. Box 444, Pittsburgh, Pennsylvania 15230. (800) 253-3399 (within U.S.A.) or (412) 236-8000

Auditors: Coopers & Lybrand, 600 Grant Street, Pittsburgh, Pennsylvania 15219

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Ticker Symbols: Common–HNZ
Third Cumulative Preferred–HNZ PR

Pacific Stock Exchange
Ticker Symbol: Common–HNZ

Copies Of This Publication
Additional copies of this publication are available from the Corporate Affairs Department at the World Headquarters address or by calling (412) 456-6000.

Dividend Reinvestment
The company offers an Automatic Dividend Reinvestment Service for Shareholders. The plan provides for the reinvestment of quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and service charges under the plan. For a nominal charge to the shareholder, shares can be deposited for safekeeping.

For additional information regarding the dividend reinvestment plan, contact: Mellon Bank, N.A., P.O. Box 444, Pittsburgh, Pennsylvania 15230. (800) 253-3399 (within U.S.A.) or (412) 236-8000

Heinz

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